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CONSUMER CREDIT and the AMERICAN FAMILY, A PERSPECTIVE ANALYSIS

National Consumer Credit Conference,
April 8, 9, 10, 1956

Bureau of Business Research
School of Business Administration
University of Michigan

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Bureau of Business Research
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ORGANIZATION OF THE CONFERENCE

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SPEAKERS AND PANEL MEMBERS

Jessie V. Coles, Professor of Home Economics, University of California, Berkeley

J. Edwin Cronander, Vice-President, National Bank of Detroit

Ernst Dauer, Lecturer on Finance, Northwestern University, and Economist, Household Finance Corporation

Ray Dawson, Professor of Finance, Ohio University

Stahrl Edmunds, Manager, Economics Studies, Ford Division of Ford Motor Company

Ray R. Eppert, Executive Vice-President, The Burroughs Corporation.

Irett Ferris, President, Credit Union League, and Manager, Detroit Teachers Credit Union

Curry B. Freeman, Vice-President, City National Bank and Trust Company, Chicago

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Margaret Hutchins, Professor of Home Economics, Cornell University

Alan S. Jeffrey, Assistant to the Executive Vice-President, American Finance Conference

Irwin E. Joseph, Credit Manager, Sears, Roebuck and Company

John B. Lansing, Assistant Program Director, Survey Research Center, and Lecturer in Psychology, University of Michigan

Richard E. Meier, President, American Finance Conference

Sidney Rolfe, Economist, Commercial Investment Trust Financial Corporation

Paul Selby, Executive Vice-President, National Consumer Finance Association

Robert B. Smock, Research Associate, Wayne University

Morris H. Strothman, Jr., Vice-President, Federal Reserve Bank of Minneapolis

Colston E. Warne, Professor of Economics, Amherst College, and President, Consumers Union

THEME OF THE CONFERENCE

Consumer Credit and the American Family—A Perspective Analysis

Consumers are people, and the overwhelming majority of people belong to family groups. The number of people in a family and their ages and sexes, and the number of earners and their incomes, help determine its consumption behavior as do the family's environment and cultural traditions, and its socio-economic status. In the aggregate, these considerations likewise help determine not only total consumption, but its distribution among various consumer goods; not only total consumer credit, but the occasions for its use and hence its distribution among families and credit-granting agencies.

Perspective, or capacity to view things in terms of their relative importance or value, calls for more than a recitation of what is. Examining how things got where they are, and where they are trending and why, contributes perspective. The theme of the 1956 Consumer Credit Conference, reversed for emphasis, would read, "A Perspective Analysis of the American Family and Consumer Credit."

PROGRAM

Sunday, April 8, 1956
2:00 P.M.–6:00 P.M.
Registration—Lobby Michigan Union

7:00 P.M.–8:30 P.M.
Buffet Dinner—University Club—Michigan Union
(Get acquainted session—no formal program)

Monday, April 9, 1956
9:00 A.M.–12:00 Noon
Registration—Lobby—Rackham Building

Morning Session
9:30 A.M.–12:00 Noon
Amphitheater—Rackham Building

Opening Remarks: Thomas W. Rogers, Chairman, Steering Committee, National Consumer Credit Conference

Welcome: James A. Lewis, Vice-President, University of Michigan

Presiding: Russell A. Stevenson, Dean, School of Business Administration

I. What Is The American Family (30 minute summary).

This analysis briefly examines recent changes and trends in the size and composition of families, in the number of income earners and income spenders, and the distribution of families by income groups. It then moves to qualitative considerations, with emphasis on social status as a motivating factor in consumption, expenditures, borrowing, and the use of consumer credit.
Speaker: Robert B. Smock, Wayne University, Detroit, Michigan

II. Balance Sheet Position of American Families.

This analysis examines which families use credit and for what purposes, and examines the financial position of families. While the emphasis is upon individual typical families, aggregates may be presented as well.
Speaker: John B. Lansing, Survey Research Center, University of Michigan

III. Questions From The Floor.

12:15 P.M.–1:45 P.M. Lunch
Michigan League Ballroom

Presiding: Thomas W. Rogers, Chairman, Steering Committee, National Consumer Credit Conference

Afternoon Session
2:00 P.M.–5:00 P.M.
Amphitheater—Rackham Building

Presiding: Paul W. McCracken, Professor of Business Conditions, University of Michigan

IV. Presentation of Statistical Supplement—10-15 minutes.
Speaker: Alan S. Jeffrey, Assistant to the Executive Vice-President; American Finance Conference

V. Family Standard of Living in 1965.
A projection of the American Economy to 1965, with emphasis on consumer expenditures and the probable growth of consumer credit, both on the average and in aggregate.
Speaker: Stahrl Edmunds, Manager, Economics Studies, Ford Division of Ford Motor Company

Coffee Break
3:10 P.M.–3:30 P.M.

3:30 P.M.–5:30 P.M.

Presiding: Wilford J. Eiteman, Professor of Finance, University of Michigan

VI. Implications for Business—A Panel Discussion.

Appliances & Furniture	Professor Albert Haring
Sales Finance	Richard E. Meier
Mail Order	Irwin E. Joseph
Cash Lending	J. Edwin Cronander
Credit Unions	Irett Ferris
Consumer Finance	Ernst Dauer

(A written summary will be entered in the Proceedings.)

6:30 P.M. Dinner
Ballroom—Michigan Union

TUESDAY, APRIL 10, 1956
Morning Session
9:00 A.M.–12:00 Noon

Presiding: G. Walter Woodworth, Professor of Finance, University of Michigan

VII. *Monetary Policy and Consumer Credit* (30 minute summary).

This reviews recent central bank policy, discusses its purposes, and explains, in lay language, the techniques of application. It also indicates the limitations on what central bank policy can do, the inexactness in timing, and the extent of the effects of this inexact timing.

Speaker: M. H. Strothman, Jr., Vice-President, Federal Reserve Bank of Minneapolis

VIII. *Institutional Credit Restraints* (30 minute summary).

A panel representing the major types of credit granting institutions presents (ten minutes per participant) (a) how the practices of those engaged in the consumer credit business limit the amount of credit that will be granted; (b) the impact of central bank policies on lending institutions—indirect as well as direct, influencing practices as well as imposing restraints; (c) responses of sales finance companies.

Panel Members:

Curry B. Freeman, City National Bank & Trust Company, Chicago
Professor Ray Dawson, Ohio University
Sidney Rolfe, Commercial Investment Trust, New York

IX. *Discussion, With and Between Panel, Speakers, Floor* (30 minutes).

10:30 A.M.–10:45 A.M., Recess

10:45 A.M.–11:15 A.M.

X. *A Home Economist's View of Consumer Credit and The American Family.*

A representative of the Family Economics—Home Management group, of professional stature and acceptable to professional associations in this area, presents the group's viewpoints on the uses and abuses of consumer credit, or its services and disservices to American families. The objective of this talk and the following panel is to establish as large an area of agreement as possible and to clarify areas of disagreement.

Speaker: Jessie V. Coles, Head, Department of Home Economics, University of California

XI. *Panel* (up to 12:00 Noon).

The preceding speaker, plus others representing (a) the consumer movement, (b) teachers of teachers of home economics and family budgeting, and (c) major consumer credit institutions, probes differences by questions and explanation, in an

effort to arrive dispassionately at areas of agreement and difference. If time permits, floor questions and discussions will be solicited after the panel has set a rational tone.

Panel Members:

Paul L. Selby, National Consumer Finance Association
Colston E. Warne, Amherst College
Margaret Hutchins, Cornell University
Lunch, 12:15 P.M.—Ballroom, Michigan Union

XII. Gearing Industry for a Higher Standard of Family Living. This presents the general subject of consumption and standard of living of the future.

Speaker: Ray R. Eppert, Executive Vice-President, The Burroughs Corporation. Summary of Conference of Next Year's Host: Theodore H. Cutler, Dean, School of Business Administration, University of Denver

FOREWORD

Conferences such as this are a concrete demonstration of the effective cooperation of educational institutions and industrial groups in an attempt to create a better understanding of the workings and functions of our economic processes in a democracy.

This Consumer Credit Conference is the 8th in a post-war series which began at Ohio State University in 1948. Subsequently, conferences were held at the University of Illinois in 1950; Lehigh University in 1951; Indiana University in 1952; New York University in 1953; the University of Southern California in 1954; the University of North Carolina in 1955; and now at the University of Michigan in 1956.

In our traditional American way, each of these Conferences has been planned as a forum for the discussion and exchange of opinion, the testing and criticism of ideas, and the expression of varying attitudes and points of view, all with the aim of obtaining a better understanding of consumer credit as an integral and important segment of our national economy. We are sure that this conference will, likewise, continue that tradition, and contribute further toward that objective.

In the two days we are to be here, we shall be engaged in a perspective analysis of consumer credit and the American family. Our hosts, in cooperation with the representatives of the national sponsors and the state sponsors, have assembled an outstanding group of speakers and panel members, and we look forward to two profitable days of analysis and discussion. We feel confident that during these sessions we shall add to our knowledge concerning the financial needs of the American family and the use which it makes of consumer credit in all of its aspects.

We are particularly glad to see in attendance at this conference representatives from all segments of the consumer credit industry, representatives from many educational institutions, teachers, administrators, consumers, students, and many others having both a direct and academic interest in the subject of consumer credit. Your presence here is an indication of your growing interest in this field and connotes further progress in the expanding usefulness and value of this national conference.

At the conclusion of our sessions tomorrow your National Steering Committee, against this background of your growing interest, will consider suggestions and proposals for the further development and strengthening of these conferences, so that they may continue to grow and thus to enhance our understanding of consumer economics and the part our consumer credit structure plays in our national economic welfare.

Thomas W. Rogers

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WHAT IS THE AMERICAN FAMILY?

ROBERT B. SMOCK

I do not believe that the consumer credit industry could have selected a better topic for its 1956 National Conference than the American family. Credit men, like all other professional people, tend to overestimate the degree to which they can manipulate the consumer. In the final analysis the success or failure of the plans and practices of creditors depends on the characteristics of the family, what the family is, what it believes, and what it wants.

Of course, in general we can be proud of the contribution consumer credit has made to the vigorous growth of our economy, but before we give all our appreciation to our own planning we should remember that the future would look very different if there should be any marked return of the middle-class family's propensity to save, as some people predict there will be. On the other hand, some believe that the instability of the family will lead it to sink itself so deeply in debt it will never be able to crawl out, and it will pull the whole economy down on top of it. But I think that anybody can get out of anything if he wants to badly enough. I won't believe that the American debtor is in too deep until the rate of repayment starts looking a lot worse than it does now.

However, the point is, what the family thinks and does is a crucial factor in determining the level of indebtedness. We tend more often to think only of our own actions. The family is such a simple, ancient, fundamental institution that we take it for granted. We all think we understand it. Actually it is just about as easy to be ridiculously idealistic about the family as it is to be ridiculously cynical about it. I think it is an excellent idea that this conference intends to devote its time to getting the facts.

Of course the facts about the family are not always easy to determine. There has been considerable debate in recent years on so simple a question as the number of children that the typical young married couple wants to have. This is a very crucial point when you are trying to decide what the average size of the family is going to be a few years from now.

The thing that started the debate was that the post-World War II baby boom did not slack off the way it was expected to. One of the theories to explain the continuing high birth rate was that prosperous times were leading the middle-class family to go back to desiring a four or five-child family instead of the two or three-child family that at one time had been common.

Enough time has passed so we know that only the rates for first, second

or third births are higher now than they were in 1921. The rates for the third birth to the same mother are still significantly lower than the birth rates for the first and second children. The rates for fourth and higher order of births to the same mother are still continuing to fall. So it does not look as if there is going to be any radical change in the size of the typical family.

That leaves, of course, the question of why the birth rate has stayed as high as it has. The well known sociological fact that people enjoy getting babies is not nearly explanation enough, because so far as we know this has always been true. The birth rate was falling in the 1920s and 1930s. The reason seems to be now that the average age at first marriage is still declining, as it has been for the last 75 years. Besides marrying younger, couples seem to be inclined to have two or three children right away, in the first years of their marriage, instead of waiting, as was once common. So in a sense the baby boom is both making up for the deficit in births of the depression and war years, and it is also borrowing from the births which would have been expected in the future if families had continued to spread their children further apart.

The phrase "borrowing from future births" does not mean that our rate of population increase is expected to decline. The United States population was something over 160 million in 1955 and is expected to exceed 170 million by 1960. This means a faster rate of growth in the second five years of the 1950s than in the first five.

The people reaching marriageable age now belong to that smaller depression generation. By 1965 these war boom babies will begin having children of their own, so the rate of population growth may be expected to continue to increase, in spite of this "borrowing" element in the current high birth rate.

The increase in population, and the increase in families which lies behind it, is a significant factor in the rapid postwar development of our economy. We should notice, though, that the consumer unit is the family, or a group of related people living together, only in a very general sense. More specifically the spending unit is the occupied dwelling unit or the household. As you realize, a household can consist of several families, or a household can consist of just one person living alone. It isn't really every family that has to have an automobile or a charge account; it is every household.

Interestingly enough, the number of households has been increasing faster than the number of families. Between 1950 and 1955, roughly in the last five years, the number of families increased 7 per cent, which is astonishing enough in a mature society like ours. However, the number of households increased 10 per cent. Between 1955 and 1960 an increase of 2 million families is expected, to bring the total up to about 44 million families in 1960. But during the same period the number of households, that is spending units, is expected to increase by 3 million, for a total

of 51 million in 1960. This means that the size of the average family is not changing; it is stabilized, as we said; but the size of the average household is becoming smaller. This of course means more spending units in any population of a given size.

The reasons for this trend toward more separate households, briefly stated, are prosperity and longevity. Young people more frequently are leaving home to set up households of their own. Families are doubling up in the same dwelling unit much less often. The number of families without homes of their own decreased 24 per cent between 1950 and 1955, in five years. Also, elderly people increasingly often want and are able to maintain their own households. Naturally, then, the number of single-person households is increasing remarkably. In the last five years, while the number of all households was increasing by 10 per cent, the number of single-person households was increasing by 29 per cent, to reach 6 million single-person households or spending units.

The consumer potential of the person living alone certainly needs to be considered in all our economic planning, but this should not obscure the fact that the typical consumer unit is still the conventional family. About 90 per cent of households include two or more persons, and a little better than 50 per cent of all households include from 3 to 5, which means that most of them consist of a married couple with one to three children, or just what we usually think of when we think of the family.

It is interesting to note that while the trend as to size of family appears to have stabilized, the trend toward a higher proportion of working wives has continued. A few years ago it was assumed that the number of working wives would decline steadily, following the second World War. However, these assumptions about women withdrawing from the labor force were made by men, and this just becomes one more of the illustrations about how seldom men understand women.

In 1900, half a century ago—which isn't so long in terms of social trends—6 per cent, 6 out of 100, married women held jobs outside their own homes. By 1940, with the stimulus of defense production, this percentage more than doubled and 15 per cent of married women had jobs outside their homes. After the war and after some decrease in the intensity of war production, in 1950, 25 per cent of married women continued to work outside their homes. The 1955 survey of consumer finances suggests that about 30 per cent of the spending units today include two or more income earners.

Part of the reason for this trend is the long-term fight women have been waging against the limitations we used to place on what they could do. Another part is the simple and obvious economic advantage of having two earners in the family instead of one. We should particularly notice that this business of a working wife is no longer only a matter of the struggle of families with severely limited incomes. About one-third of all spending units include a working wife. Almost one-half, one out

of every two, of the spending units where the unit income is over $7500 include a working wife.

The working cycle of married women is clear now also. In families with no young children about 57 per cent of the wives work. Where the youngest child is under five the proportion drops down to 21 per cent. When the youngest child is over five but still under 18 about 40 per cent work. In other words, almost three out of every five young women work after they are married until they have their first child. Then, even while one of the children is still under five years of age, one out of five still work. When the last child is in school but still under 18, many more return to work. So two out of every five wives are working in families where children are between five and 18 years of age.

Since working women appear at almost every income level now, they do not alter much the distribution of income among families. The most significant factor for the distribution of income among American families is still probably occupation. The common picture about income really does not fit the American situation any more, or the situation that you deal with. I think the common picture sees income distributed in the shape of a pyramid, with very few having the highest incomes, many more having middle incomes, and masses of people having the lowest incomes.

This picture probably suited the situation 50 years ago, but it doesn't any longer. Now we have a pyramid in which the base is narrower than parts of the middle. It is as if the bottom corners had been pushed in. I think the picture will be clearest if you consider just four figures about the number of families in different income groups in 1960. At that time there will be about 29 million urban families of two or more persons. This is the group that includes most of the population. Four million, four out of the 29, will be at the top with disposable incomes after taxes of $7500 or more. Seven million will be in the upper-middle with incomes between $5000 and $7500. Then 11 million will have incomes between $3000 and $5000, say average incomes. Then 7 million again will have incomes under $3000.

These are the four statistics worth remembering, I think: Four with superior incomes; seven with good incomes; eleven with average incomes; seven with low incomes. That is the distribution among the American families that you deal with. This picture includes only urban families. If you include rural families and include people living alone in cities, then you get the traditional pyramid. However, to an ever-increasing extent the urban family is becoming representative of the total population; not only do these families include most of the people, they have most of the disposable income.

By 1960 about two-thirds of the nation's total disposable income after taxes will be in the hands of the urban families. Over half of the urban family income will belong to middle-income families; that is, families receiving between $3000 and $7500 per year. These are, of course, the

families with enough income to be important customers, but not with so much income that they do not need credit.

I think this is enough information now for us to form a picture about the typical family so far as its structure is concerned. It probably would be worthwhile, though, to retain two pictures of the typical family. The typical American family, you can say, lives in a city, has two or three school-age children, and an income of around $4500, and in almost one-third of these families the wife works. However, increasingly often young adults and grandparents are maintaining households apart from this typical family. In these consumer units somewhere between 30 and 50 per cent of the wives work. In other words, so far as the structure of the family is concerned the statistics support the common-sense picture of the situation: The typical family is just what you knew it was, but now there are statistics to prove it.

When you begin to consider the social characteristics of the family, however, there isn't nearly as much agreement about what the common-sense picture should be, and the statistics are not so easy to find nor so easy to interpret. I would like particularly to talk about some of the status characteristics of the family which are important to the family's use of credit, but before we get to that I suppose we should take a look at one other general and basic question about the social characteristics of the family. This question might be stated: Is the American family falling apart? Critics of the modern family, and there are many of them, publishing their views in scholarly journals and Sunday supplements, must have raised this question about falling apart in the minds of many people. You might very well begin to think that the family is on its last legs and not likely to be around long enough to be worth holding a conference about.

Probably we should take a look at the evidence such critics present. Perhaps the most alarming statistic in this country today is the divorce rate. The divorce rate was about five per cent of the number of marriages back in the 1880s, but before the turn of the century it began to rise and after the first World War it had doubled and ran about 10 per cent of the number of marriages. After the second World War it was higher than ever, but it was assumed that it would decline a good deal from the postwar peak. It has declined a little, but for the last few years the divorce rate has been running about 25 per cent of the number of marriages.

It is not only the split-up of the marital partners in the family that alarms the critics, they also worry about the split between the three and four generations that used to make up the typical family, this matter of young adults and grandparents maintaining separate households apart from the middle-aged couple. The critics point out that this seriously weakens the family, leaving it more vulnerable to pressures like unemployment or serious illness.

The fact that so many wives work is interpreted to mean that mother

now prefers money-making to home-making. To the critics this is related to the whole parcel of complaints about Americans being selfishly ambitious and far too independent, too independent to create a stable family.

Most often the critic of the family sees the problem to be that the family has nothing to do as a family any more. Religion used to be a vital family experience, but this is not so often the case today. The process of educating the children used to be a family function, but now that has been turned over to experts. Most important, back on the farm and even in the early city workshop, making a living was a family function. Families worked together. Now in finding a job and doing your work it is every man for himself, and often it is very far away from home.

The one central function of the family today is having and raising children. There seems to be a general trend to turn the raising of children over to experts in nursery schools, boarding schools, military schools and the like. If the function of raising children is removed from the family it will have no function left which can be discussed in public.

As is probably perfectly clear now by the exaggerations, I do not agree at all with this cynical view. In the first place, even the divorce rate is not as bad as it sounds or as it is made out to be. Divorce is a very expensive thing. In prosperous times an incompatible couple is able to get a divorce, which goes on the record, instead of experiencing a desertion, which does not show up in the statistics.

Considering the lack of evidence, it seems to me entirely possible that the increase in the number of divorces actually has been smaller than the decrease in the number of desertions and informal separations. In other words, the family could be, for all these divorce statistics, more stable today than it was 50 years ago. Besides, a divorce does not necessarilly mean a decrease in the number of families, because divorced persons usually remarry. As a matter of fact, in the 1890s about one-half of the adult population was married. Some were widowed or divorced, and most of the rest were single. The proportion of the adult population which is married has been rising steadily since then, and by 1950 two-thirds of all adults were married. That is the highest proportion ever. A somewhat larger proportion is widowed and divorced, and a much smaller proportion is single. However, this does not support the divorce statistic that families are disappearing, being dissolved in the courts.

It seems to me there is no convincing evidence that divorce can destroy the American family. Of course, that does not explain why the divorce rate is as high as it is, and it undoubtedly is high. I suppose there are at least three explanations we can mention briefly. In the first place, we permit divorce, where our forefathers did not. It is not looked upon as shameful now, as it once was. In the second place we can afford divorce. We are a great deal more prosperous as a society than we once were. In the third place, we tend to marry very young. The average age at first marriage has been declining for a long time, and today the average

man is married by the time he is 23. The average woman is married by the time she is 20. In a way it is incredible, but the fact is that most people who get married stay married.

I think the concern with the generations splitting apart is also exagerated. It is certainly true that modern families move away from the home town and the home families more often than they used to. It is also true that young adults and grandparents less often share the home of the typical family. But I am not sure this means they get along less well or are less inclined to help one another. This business of the generations splitting apart is usually associated with the anonymous living of big cities. Detroit, for instance, is a pretty big impersonal city, and it has been growing, more than any city of its size, which means new families have been moving in. But in 1955 the University of Detroit area study found that almost 90 per cent of Detroit area families were related to other families in the area, and that 66 per cent of these families, two-thirds of them, visited their relatives at least once or twice a week. This does not fit the picture of the isolated, lonely, weak and unsupported urban family.

This business about the family having no function does not hold up very well either. It seems obvious to me that it is to the family's advantage that religion, education and work are matters for specialists, for the experts, today. Surely the functions of rearing children, of playing together, and of supporting one another are functions enough for a strong family.

In perspective, the modern American family is undoubtedly the healthiets, happiest, most efficient institution ever devised for rearing the independent kind of person that a democracy depends upon. The one general criticism against American family members, which seems to be upheld, is that they are sometimes impatient about their ambitions. Undoubtedly some American families are seriously weakened by working mothers or over-working fathers. This is a good point at which to turn to the subject of the status of American families.

It seems to me that the subject of status, impatience, ambition and consumer credit are all closely related. There was a time when the credit industry really did not need to bother to figure out just why the consumers used their services, or at least rather superficial assumptions about the consumers' motives were sufficient. However, the unusually sharp rise in consumer indebtedness last year raised a question in the minds of many people.

Simply and non-technically the question is: By what process will consumer credit be adjusted to the needs of the economy? For some there has been an assumption that natural economic laws would provide regulation, would cause credit to function counter to the business cycle. During deflationary phases the consumer would be inclined to use credit to supplement his reduced income, and the lender would be inclined to advance credit because the demand for capital in industry would be decreased. During inflationary phases the consumer would reduce his

debt and the lender would use his capital in industry. During both phases, then, consumer credit would be a stabilizing factor.

I am sure you have all heard this outline many times by economists, but what has happened has been something different. In deflationary phases of the cycle the consumer does use credit, but during inflationary phases he uses even more. If natural laws do not regulate, and if any regulation is needed, the alternatives, I believe, are perfectly obvious.

Government may begin a direct regulation as it did in wartime. The credit industry itself with its various divisions functioning jointly, as in this conference, may provide any regulation needed. Or the consumer may be relied upon to hold his debt within limits safe for himself and the economy. I believe these are the only three alternatives, speaking very generally.

Self-regulation by the credit industry certainly poses some tough problems. Not only is there the matter of the diverse and independent types of credit and the creditors, but there is the kind of problem that *Fortune* talked about a while ago, the problem that no matter how sound the creditor and the debtor may be, credit may have a depressive effect on the economy if it merely increases at a rate that cannot be maintained.

Happily, I am merely a sociologist and leave the problem of figuring that one out to the economists and professional credit men. I shall, with some relief, limit myself to considering the possibilities of consumer regulation of consumer indebtedness. This does not seem relatively unimportant to me because it is my contention that the basic determinant of the level of indebtedness is the behavior of the consumer, which is to say, of course, the family.

This is easily overlooked. I have heard it said, as I am sure you have, that the key to the sharp increase in consumer debt last year was the easing of terms for auto loans in the face of increasing competition. Such a theory neglects two points: First, capital in these prosperous times has tended to become available for consumer credit because the consumer has proved himself willing to pay very well for credit, and to behave responsibly when he gets it; second, auto paper did not take flight all by itself—and I am not saying this just because I am a Detroiter and, like the rest of Detroiters, my fate is bound up with autos.

Personal instalment loans increased about $700 million in 1955 compared to an average of about $450 million in the preceding two years. Charge accounts increased about $300 million in 1955 compared to $175 million in the preceding two years. You know the statistics. Just let me remind you that it wasn't only the auto industry that felt this. This was something more fundamental than a change of policy in a certain place. Speaking as an outsider to the credit industry, it seems ridiculous to me to talk as if the auto financing or any other creditor manipulated the consumer into debt. It looks to me as if the consumer has at all times urged the loaner on. Of course this is not necessarily any better.

Why does the consumer demand credit? The economist sometimes answers that the consumer uses credit to encourage himself to budget. This begins to sound a little outdated. A work on consumer behavior published by New York University recently reports a rather large amount of impulse buying, even of the so-called "big ticket" durable items.

In discussing the consumers' motives in using credit I like the phrase "impatient ambition." *Fortune* referred to a kind of mass compulsion to lose not a month in living up to a community standard. "Mass compulsion" is a nice alarmist, exciting phrase. However, these phrases describe without explaining anything. There is a good deal to explain the demand for credit.

The beginnings of a mass demand for consumer credit appeared during the years immediately following the Civil War. The steady expansion of consumer credit since that time reflects the growing ability of working-class families to use credit and the growing willingness of middle-class families to use credit. Knowing the distribution of debt, it is obvious that the crucial question is, what has led the middle-class family to be willing to use credit?

To see the relevance of this question you must recall that until the Civil War period, it was believed fervently by middle-class families that it was literally sinful to be in debt. The family became middle-class by saving its money until it could buy the possessions that marked it as middle-class, as opposed to working-class. Saving and never wasting were the basic characteristics of the middle class. The social scientists used terms like "deferred gratification" as the fundamental explanation of the middle-class family behavior.

Now the middle-class family not only does not save in this same compulsive sense, but actually anticipates its earnings by widely using credit. The use of credit then is part of a radical change in the psychology of the American middle-class. This change becomes more understandable if you compare the typical middle-class family of 1856 with the typical middle-class family of 1956.

A hundred years ago the middle-class family was a very independent family. The father was either a farmer, the owner of a small business, or a professional man—these were the three general types of middle-class occupation—and he was always self-employed. Most of the people in his town who were farm or factory laborers looked up to him if he was a middle-class family man; that is, he had a middle-class status, he had arrived somewhere. Essentially his status reflected his achievements, and his achievements included integrity, intelligence, the ability to work hard, as well as the achievement of attaining a clearly superior income and the possession of property. These characteristics were part and parcel of the material things about his achievements, his status. He and others like him had a monopoly on education. This was part of his status also,

because working-class people never went to high school then and all middle-class people did.

A man of the middle class achieved higher status for his family, just like climbing the rungs of a ladder. Everyone knew this ladder existed and understood what the different rungs on it were. Any man who climbed up several steps of this status ladder in his lifetime could feel he had been entirely successful. He had had a good life. He climbed these steps primarily by saving, because by saving he was able to come to possess the additional property that went with the higher steps, or status. Of course being in debt then was failure and a sin.

A member of the new white-collar class today has a status almost totally different. He may be a professional man on a salary. He may be the manager of a business that he does not own. He may be a salesman or a clerk. But he is very rarely any more self-employed. His status still reflects his achievement, but his achievement is much harder to measure now. The vocation he has achieved is no longer clearly symbolized for everyone to see in a piece of property such as a farm, a shop or a business of his own. Jobs are so diverse and specialized that it is pretty hard to judge achievement by a job title. A member of the new middle class no longer has a monopoly on education, even on college education.

In the end there is really only one measure of his status, one measure he himself, his family or his neighbors can use to judge his achievement. That measure is possessions, which you can look at in terms of his standard of living, his way of life, the income that possessions are presumed to represent.

Under these circumstances, and with the additional factors of Blue Cross and social security and the like, saving seems pretty futile. Part of the old hatred of debt was the desire to be independent. That seems pretty futile too, when so few can be self-employed. Even income itself is not a very satisfactory measure of achievement for a man of today's white-collar class, because the incomes of the more highly skilled blue-collar people are significantly higher than the incomes of many white-collar workers today.

The point is, there is no longer a very recognizable ladder of status for the American family to climb. You can only try to work yourself up a slide by increasing your posessions. Every man has aspirations for himself and his family. About the only way to measure your achievement against your own aspirations and against the success of others is with your posessions. In this perspective it is hardly surprising that today's middle-class family comes to regard short-term debt as corporate managers regard it, as a way of acquiring capital goods whose immediate use is worth more to them than the carrying charges.

I draw two conclusions from this perspective view of the current American family. In the first place, the American family is certainly

going to continue to be a magnificent customer for the consumer credit industry, but it cannot be counted upon to produce a counter-cyclical use of credit. That kind of regulation will not come from today's family.

In the second place, the consumer credit industry in its self-planning, self-regulation probably could profit from additional consideration of the group memberships of credit consumers. I imagine that one sure factor in the future of the credit industry is an expanded use of the credit exchange by all the divisions of the industry.

I foresee the day when every application for credit is received by a tape-recording IBM machine. This information will be transmitted to an electronic brain. The brain will weigh the application in a flash, taking into consideration the family's position and the family life cycle, its current debt position and the particular status group of which the family is a member, as well as the status to which it aspires, all of this correlated instantaneously. What credit applicant can possibly resent a rejection which is the scientific conclusion of an electronic brain? The rejection will come out in the form of a code number which means, "Thank you, but this application really should be postponed until the applicant attains Occupational Group 32B, or Fixed-Payment Level 4 by repayment of the Credit Union loan."

Less fancifully, it is clear that the American family is not going to change radically in the near future. The credit industry can turn the family's status-striving into effective mass consumption. And this can help us toward the continually expanding economy which is a fond hope of us all.

BALANCE SHEET POSITION OF AMERICAN FAMILIES

JOHN B. LANSING

We have been emphasizing data from the survey of consumer finances which is essentially about the sources and uses of funds of consumers. I think the relevance of people's income and their other obligations to their debt position is pretty obvious, but perhaps it may be useful also to look at the balance sheet.

The balance sheet I think has been much less emphasized, certainly in our discussions. However, it is appropriate in bringing a perspective on consumer credit and the American family to take into account the debt and also the assets. Certainly if one were analyzing a business corporation and knew only that the XYZ Corporation owed $50 million, one could conclude really very little about that corporation. You would have to know about the rest of the balance sheet. I guess all you could say would be that it was a fair-sized corporation, but certainly you could not conclude they were headed toward bankruptcy.

From the consumers' side it seems to me there are two reasons for looking at the balance sheet. One is what an economist would call the welfare problem. You look at the welfare position of the consumers, that is, how well off they are. Their ability to pay is also affected, obviously, by their other assets, by the total picture of their liabilities.

It happens that in the survey of consumer finances we have twice attempted to get a reasonably complete balance sheet for the people we interviewed. I think probably all of you are familiar with the fact that we do these surveys every year for the Federal Reserve Board. The studies involve about 3000 interviews each year, taken with a cross-section of the entire United States. I should perhaps make quite clear that what I am going to say and the use I will make of these data has nothing to do with what the Board might approve or disapprove. I am responsible for these particular numbers and the way they are being used here today, and certainly I am responsible for any interpretations I make.

In making our surveys, we talk with people in their own homes. We write a letter first and say we are going to come and see them, and we tell them what we are up to. Then the interviewer comes and asks to talk to the head of the household. (By a wholly arbitrary rule we say that is the husband.) Our interviewers are typically women. They are some of these married women whose children have gotten at least into the first grades of school, that Professor Smock was talking about, or they are older women with some leisure and some experience in life. They do very

well, we find, in reaching people and getting them to talk. The interview itself lasts perhaps an hour, and it covers a variety of topics. The emphasis shifts from one year to the next. In 1950 and 1953 we talked about the balance sheet.

There is one problem that always comes up in using data from these surveys. They are not perfect, not 100 per cent accurate. I find there are two groups of people: Those who take the numbers with a kind of implicit faith, which is gratifying but makes us nervous; then those who, when they learn there really are errors, are inclined to throw out the baby and the bath, both. There is also a third group of people who shift from one point to the other from one day to the next.

There is quite a problem in learning to live with data which are imperfect. Fortunately it is not a problem that occurs only in the Survey Center. My own first experience with it came when I was taking a course in mathematics in college. The professor quite incidentally remarked that this was carried out only to six figures, but after all, there were very few things we knew to six figures. I felt surely there were lots of things we knew to six figures. I thought of the census. After all, 168 million or so was nine figures. Since then I have learned more. As I understand it, the census people believe that the 1950 count in the population was accurate within 2 per cent. That implies that the first two numbers are all right, the 1 and the 6, but the third number is at least subject to some uncertainty, and the ninth one is clearly just a number.

Since I have gotten into this business of numbers myself, I have come to realize that if the census were accurate within one per cent, that would be grounds for discharging the director. The reason is this: that we do not need to know the population of every town, village, and so on, in the United States with absolute precision. It costs a lot of money to get it close; to get the error down to within a fraction of one per cent would be simply not worth the money.

A little about the nature of the errors in these surveys. There are a few people who are very hard to reach, some of them because they are never at home. After knocking at the door half a dozen times we question whether it is worth the money and time to keep going back. There are also some people who simply refuse to talk. They will answer the door, but you never do get inside. About 6 or 7 per cent refuse to be interviewed. Some of those are high-income people. There was one man who would not give us his income. The interviewer knew we wanted to know that figure. Finally he broke down and said he was in the highest income tax bracket. We settled for that. It turned out to be $200,000, but who knows, it may have been anywhere over that. He is the only one in that bracket that I can remember picking up in a survey.

That leads, I think, to the second problem: that in a sample of 3000 you don't usually get the top-income families. There are 50 million families, and with a sample of 3000 you just don't hit John D. Rockefeller.

So I think you should regard the statistics we are going to talk about as statistics exclusive of John D. Rockefeller, and make your own corrections for what they would be if he were included.

Another problem is that people may not always give us accurate answers. Sometimes they just aren't very much interested in talking to us. They won't take the trouble to do it. I remember one time interviewing, in the slums in Chicago, a Negro physician. I would ask him a question and he would give me five minutes' discussion of the race problem in that region. I must admit it was pretty serious from the things he told me. At the end of the five minutes he would say, "What was that you asked me?" I would repeat the question, he would give me an answer, and I would try to ask him the next question. He would then go on to another five minutes. I couldn't get too much of his energy devoted to answering the questions.

Usually there are two interviewers in small towns. Sometimes it turns out they both know somebody who is going to be interviewed. That is unfortunate, because we try very hard to make the interviews anonymous. Once in a while it happens you do know someone you are interviewing, which makes a difficult situation. It is hard to press them too much to tell you the details of their finances.

These are just examples of the kind of things that come up which affect the accuracy of the numbers. I think you should keep them in mind. Nonetheless, I hope we can make something out of them together.

Now let's turn to the first of the tables, which looks like a balance sheet. It is really not, of course, but at least it has the assets on one side and the liabilities and net worth on the other. What we did was to take all the people we interviewed. In effect we added up all the assets they told us about, then we took per cents according to what the assets were.

It turns out that 14 per cent of all the assets in the sample were liquid assets, bonds or bank accounts. That implies that is is also 14 per cent for the population; 14 per cent of all the assets of all consumer units are in liquid form. I am sure the 4 is not right, but it is something in that general order.

In that list of assets the one that clearly stands out is the home. Owner-occupied homes are far and away the most important single item.

Then we come to liquid assets and interest in businesses and farms and in real estate other than the owner's own home. That would be primarily property he is renting out, or it might be a lot he owns, or he might have a summer cottage or have an interest in an apartment house. This turns out also to be quite important. Remember, Rockefeller is not in here, but the common stock is a fairly important asset. Then come automobiles. That estimate for automobiles is one we made up by taking the kind of car the man said he had and looking up in one of the books that you are familiar with the value of the car.

The most important thing, perhaps, about the list of assets is the items

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TABLE 1
PROPORTION OF TOTAL ASSETS AND OF LIABILITIES
NET WORTH OF ALL SPENDING UNITS ACCOUNTED FOR BY DIFFERENT ITEMS[1]

Assets	Per cent	Liabilities and Net Worth	Per cent
		Liabilities	
Liquid assets (bonds, bank accounts)	14	Personal debt	3
Money loaned out	1		
Common stock	7		
Automobiles	5		
Interests in privately owned businesses	14		
Farms and farm assets of owner-occupied farms	12	Farm debt	1
Real estate other than owners' homes and farms	13	Debt on real estate other than owners' homes and farms	1
Owner-occupied homes	34	House debt	8
		Total Liabilities	13
		Net worth	87
Total assets[2]	100	Total liabilities and net worth[2]	100

[1] Based on 3,097 interviews in early 1953.
[2] Neither the list of assets nor the list of liabilities is complete. Among the most important omissions are holdings of currency and consumer durables other than cars and homes, and household "accounts payable," that is, unpaid bills for goods and services.

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TABLE 2
PROPORTION OF ALL SPENDING UNITS OWNING EACH TYPE OF
ASSET AND OWING EACH TYPE OF LIABILITY

Assets	Per cent	Liabilities and Net Worth	Per cent
Liquid assets (bonds, bank accounts)	71	Personal debt	52
Money loaned out	12		
Common stock	7		
Automobiles	61		
Interests in privately owned businesses	7		
Farms and farm assets of owner-occupied farms	8	Debt on farm	2[1]
Real estate other than home	14	Debt on real estate other than owners' homes and farms	3[1]
Owner-occupied homes	43	House debt	23

[1] As of early 1950. Data for early 1953 not available.

that are not there. There are quite a few of them. You can probably supply them as well as I can. The currency in your pocket is not there, which is a bit touchy to ask questions about and we don't do it.

Consumer durables are not there. There is no entry for furniture, washing machines, and so on. Why aren't they there? I think it is arbitrary that they are left out. The only explanation is that it is hard to value these things, harder than it is to value a car. The market for second-hand furniture, and so on, is less well developed than the market for second-hand cars. There is a difficult problem in evaluating a piece of furniture that has been in the house for five years, and when you have forgotten exactly how much you paid for it when you bought it.

Looking at the other side you will see that the liabilities amount to only 13 per cent, roughly speaking, of the assets. Of those the most important is, of course, the house debt. The liabilities are not complete either. We have not included the unpaid bills, and I suspect also that personal debt is not covered quite as completely as it should have been in the survey.

Remembering what Professor Smock had to say we might also add that the babies are not on the list. If you chose to spend your money getting married and having babies early, the babies might reasonably be assets, but they are not included here. Your social security is not here either, nor your interest in retirement funds, or things of that kind.

There is one other comment I should make about this. I find I am using the phrase "spending units" in a sense slightly different from that of the previous speaker. "Family" is a word that has a good clear meaning to all of us. A family is a group of people who are related and live in the same house or apartment. I am using "spending unit" in a sense in which there can be two spending units in a family. If there is a grown son living at home and working, earning money of his own and spending more than half of his own money on his own affairs, he is a separate spending unit, as I am using the term. You can have two spending units in a family, or even three. You might have two grown sons or parents who pool only part of their finances in the common family funds. I think Professor Smock was using it in a somewhat more inclusive sense.

I do not think it is too useful to stick to the total picture. Let's look at the second table which really makes that point. This shows the proportion of all spending units who owe each kind of debt or have each asset. We estimated 71 per cent of all spending units as of early 1953 had some liquid assets, while 29 per cent did not. Looking down the list you find 61 per cent had automobiles, only 43 per cent had homes, and relatively small proportions of the spending units owned the other assets listed.

In the same way, of course, only a few spending units owed debt on a farm or a house other than their own, and 23 per cent had house debt. About 52 per cent had personal debt.

The fact that not all consumers have all items makes it hard to look at

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TABLE 3
PROPORTION OF SPENDING UNITS WITH VARYING NET WORTH

Net Worth	Per cent	
Minus $1,000 or more	1	
Minus $1-999	10	
Zero	4	
$1-999	16	
1,000-2,999	14	
3,000-4,999	9	Median $4,000 (Half of units above and half below this level)
$5,000-9,999	17	
10,000-24,999	18	Average $12,000
25,000-49,999	7	
50,000 or more	4	
Total	100	
Number of interviews	3,097	

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TABLE 4
TWO ESTIMATES OF THE PROPORTION OF SPENDING UNITS WITH VARYING NET WORTH

	Proportion of Spending Units	
Net Worth	From the 1950 Survey of Consumer Finances[1]	From the 1953 Survey of Consumer Finances[1]
Negative amount	8	11
Under $1,000	27	20
1,000-4,999	24	23
5,000-24,999	33	35
25,000 or more	8	11
Total	100	100

[1] The two surveys differed both in date and in the details of the questions asked. In 1953 a greater effort was made to obtain information about debt.

a composite picture for a unit. Fortunately we can do something about that by looking at their net worth, (Table 3.) We could use other single numbers. One might look, for example, at their liquid assets only, or the ratio between two assets. I am sure the accountants could select a variety of possible things we could look at here. I have chosen net worth simply because I think it is probably the most meaningful single number. We calculated the net worth for each individual unit separately and added it up. Perhaps the first thing that strikes you is that for 11 per cent of the population we came out with a negative number. That is partly because of the way we went about this. If a man bought a washing

machine and borrowed money on it we did not count the washing machine but did count the borrowing. He would be entered on the negative side if those were the only two items on his balance sheet. Nonetheless, I think it is hard to say that man is well off if he comes out negative. It means he does not have a home, a car, or enough other assets to bring him up to the zero point.

If you take all spending units, rank them in order by their net worth and look at the middle spending unit you find that the net worth is about $4000. If you take all the money and divide it by the number of units, you come out with a different number, about $12,000. As you see from Table 3, about 4 per cent of all units turned up with $50,000 or more, and at the other extreme one per cent were $1000 or more in debt.

This table itself is not very meaningful. It is much more important to consider who it *is* than who *has* these amounts. Perhaps before we do that we should look at the next table. Table 4 gives you some idea as to how two estimates of the net worth situation might vary. These are estimates made in 1950 and 1953. In 1950 only 8 per cent had negative net worth compared to 11 per cent in 1953. At the other end of the distribution, in 1950 we had only 8 per cent with net worth of $25,000 or more compared to 11 per cent in 1953.

I think those discrepancies should not be blamed simply on what happened over the three-year period. They also reflect the different questions asked, and the wobbling about that you always get when you have only a sample of the population. This is the kind of discrepancy you might turn up with if you did this again, and again by this order of magnitude.

Table 5 repeats the same distribution we saw a moment ago about

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TABLE 5
PROPORTION OF TOTAL NET WORTH ACCOUNTED FOR BY SPENDING UNITS WITH VARYING NET WORTH

Net Worth	Per cent of Spending Units	Per cent of Total Net Worth
Negative (debts exceed assets)	11	−0.4
Zero	4	—
$1-999	16	+0.5
1,000-2,999	14	+2
3,000-4,999	9	+3
5,000-9,999	17	+11
10,000-24,999	18	+23
25,000-49,999	7	+20
50,000 or more	4	+41
Total	100	100
Number of interviews	3,097	

the 11 per cent negative net worth in 1953. The second column, however, shows something different. Here we asked the question: What proportion of the total net worth of all consumers is in the hands of those 4 per cent with $50,000 or more? By our estimate they have 41 per cent. If you include the units between $25,000 and $50,000 you get up to a total of 61 per cent of the net worth of all units held by this 11 per cent.

It looks pretty concentrated, especially if you look at the other end of the distribution. Of course the negative people wind up with a negative share, as it were, of the total amount, and the zero people don't have anything. The 16 per cent with $1 to $999 had 0.5 per cent, or thereabouts, of the total net worth of all units. In fact, you have to get up to $4000 or so before you can see the numbers.

Gentlemen, this is why you are in business. There are a large number of units with relatively small assets, down here in the bottom half of the distribution, and there are relatively few units at the top half. It is those people from $4000 or $5000 on down who are the customers for lending agencies.

I would like now to examine more closely the question of who it is who has the net worth. In Table 6, I have ranged the different occupational categories ranked in order of the average net worth of spending units who are in those occupations. At the top is the self-employed businessman, which I think is no surprise to anyone. The typical individual has a net worth of $17,000. The average mean is of course much larger, $39,000. There is the same comparison as between the $4000 and $1000 we had for all units a few moments ago.

I was quite surprised with the second entry for the farm operators. I had not thought of them as better off than the managerial and official group. However, I thought twice and remembered that you don't farm nowadays with a pointed stick. There are tractors, livestock, the property

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TABLE 6
NET WORTH OF SPENDING UNITS
WITH HEAD IN DIFFERENT OCCUPATIONS

Occupation	Median Net Worth	Average (Mean) Net Worth
Self-employed businessmen	$17,000	$39,000
Farm operators	14,000	21,000
Managers and officials	8,000	19,000
Professional workers	6,000	15,000
Clerical and sales	3,000	7,000
Skilled and semi-skilled workers	3,000	5,000
Unskilled and service workers	400	3,000
All Occupations	4,000	12,000

itself. The farmers, many of them, turn out to have a rather substantial investment compared to other groups. You will notice, however, that the average for the group is substantially less than that for the self-employed businessman.

At the other end of the distribution, the unskilled and service workers can hardly be described as very well off. The typical unit has assets of about \$400, and the average over-all unit, taking all the funds and dividing them equally, has assets of about \$3000.

This occupational distribution omits the unemployed, the retired and some other minor groups, students, and so on.

People in different occupations differ in what assets they have as well as in the net amount. (Table 7) Here we ask a somewhat different question: For each occupational group as a whole what proportion of the assets of the group—that is, of those assets we have been measuring—are in the form of homes, and what proportion are in cars? You will remember from the first table we found that about 34 per cent of all assets of all units were homes and about 5 per cent were cars.

If you look at the different groups you will see that for the self-employed businessman the home is relatively unimportant. It amounts to only 22 per cent of the total assets of all people in this group. At the other extreme, the unskilled worker, the home amounts to about two-thirds of the assets, considering the group as a whole. What assets there are in this occupational group are primarily comprised in the home.

Looking at the car asset you can see also that the self-employed businessman probably has a car, but as compared to his total assets it only amounts to about 3 per cent. Most of it, of course, is in his business. As you go through the groups with lesser net worth, the proportion that is in the car goes up. For the skilled and semi-skilled worker it is 10 per cent. For the unskilled worker there is a slight decline, the kind of

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TABLE 7
RELATIVE IMPORTANCE OF OWNER-OCCUPIED HOMES AND CARS FOR DIFFERENT OCCUPATIONS

(showing per cent of total assets accounted for by each asset)

		Occupation					
Asset	All Occupations	Self-employed Business-men	Managers and Officials	Professional Workers	Clerical and Sales	Skilled and Semi-Skilled	Un-Skilled
Home	34	22	42	38	51	63	64
Car	5	3	6	7	9	10	8
Number of interviews	3,097	268	191	301	408	837	328

decline I do not think we can put too much faith in. It would be plausible, however, because some of these people don't have any car at all.

It is not true that net worth depends only on occupation, as I think all of us are aware of. It depends on people's age. Table 8 shows a measure of the family accumulation with age. The typical individual in the lowest age bracket we have here, 18-24 years, has a net worth of about $300. People age 65 and over typically have a net worth of $8000 or $9000.

The accumulation seems to come at about 25 to 44. By the time they are 45 to 50 their accumulation is about over. It comes pretty close to

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Survey of Consumer Finances

TABLE 8

NET WORTH OF SPENDING UNITS WITH HEAD OF DIFFERENT AGES

Age (in years)	Median Net Worth	Average (Mean) Net Worth
18-24	$ 300	$ 1,400
25-34	2,000	6,000
35-44	5,000	10,000
45-54	8,000	17,000
55-64	9,000	20,000
65 and over	8,000	19,000
All ages	4,000	12,000

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Data from the 1953
Survey of Consumer Finances

TABLE 9

RELATIVE IMPORTANCE OF ASSETS AT DIFFERENT AGES
(showing per cent of total assets accounted for by each asset)

		Age of Head					
Asset	All Ages	18-24	25-34	35-44	45-54	55-64	65 or More
Car	5	24	11	7	5	3	2
Owner-occupied homes	34	21	42	39	33	30	31
Liquid assets	13	17	11	12	12	14	17
Real estate other than owner's homes and farms	13	3	9	11	13	12	18
Common stock	7	2	4	2	5	16	8
Money loaned out	2	1	1	1	1	2	3
Farms and farm assets	12	26	10	16	13	11	7
Business	14	6	12	12	18	12	14
Total	100%	100%	100%	100%	100%	100%	100%
Debt as per cent of total assets	13%	41%	34%	22%	9%	6%	4%
Average (mean) net worth	$12,000	$1,400	$6,000	$10,000	$17,000	$20,000	$19,000
Number of interviews	3,097	267	684	667	579	410	517

a peak there. There is a slight tapering off at the end as older people use up some of their assets on retirement.

We have been talking in very general terms. We might look in more detail at assets. I think it is more illuminating to look at the shift in the asset pattern over age than just to look at the asset pattern itself. In Table 9 the car turns out to be overwhelmingly the asset of the young. It is not that they have more cars, but what they have is the car. Of the 18-24 age group the car is 24 per cent of the total assets of every one in the group. The average for that group, you remember, is $1400. That proportion falls steadily until you get to the people 65 years or older who have much more money. The average there is $19,000. Only 2 per cent of that is cars. Their money is in other things.

Owner-occupied homes are important at every age, but they reach their peak in relative importance in the 25-34 age group. These are people who have just bought their homes. They bought the car first and the home second, as far as I can make out. Many people must go through that sequence. Here it is 42 per cent of their net worth. Their net worth has come up to $6000 for the group. That stays about constant, but falls off gradually until it is only 31 per cent in the oldest age group, 31 per cent of a larger number, of course.

Liquid assets have a quite different pattern. It is the young and the old who are liquid. In between you are all tied up with that house and other things, apparently. Of course the older people have much more money, but in proportion to the assets they are in about the same position as the youngest age group.

The next three items here are the kinds of property that can produce income, and these assets, as one might expect, increase with age. You are more likely to own real estate other than your home as you grow older. You are more likely to own common stock. You are more likely to have loaned out money to someone who you hope will still pay it back to you.

Farms do not behave in quite that way. I have been puzzling some about that. I think the answer is that you have to have quite a bit of capital to start out in farming. That is the reason why farms amount to about 26 per cent of the assets of all units whatsoever in the 18-24 bracket. Of course, most of that is in the hands of the farmers. That means simply that the young farmer has a much stronger net worth position than the average city person.

We have been talking about age and occupation separately. In Table 10 I have tried to take a look at age and occupation together. At this point we are beginning to push the data a little. We don't have very many interviews with people in each age bracket in each occupation. We are sorting it once more and it gets a little thinner. There are asterisks in the table on the numbers based on less than 100 observations. This is a rough way of showing you the numbers most likely to be subject to sampling error.

For each occupation group you can see the pattern of accumulation, with an exception for the self-employed, which I think is simply a result of sampling error. I believe it is safe to say that for each occupational group you do have an increase, but the pattern is quite different.

The self-employed start out, in our best estimate, with $15,000. The total at the peak is only $24,000. The increase is perhaps 60 per cent, something of that order. The farm operators are somewhat the same. They start out high. These are medians, you will notice. The typical farm operator starts out at $9000, rising to $21,000. The professional workers start out at $2000 and wind up with $23,000. Perhaps that is partly because of the way we put this together. We do not give the professional man any credit for his education; that is, we did not enter in his balance sheet any estimate of the value he is receiving for that money

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TABLE 10
MEDIAN NET WORTH OF SPENDING UNITS CLASSIFIED BY BOTH THE AGE AND THE OCCUPATION OF THE HEAD OF THE UNIT

Occupation	All Ages	Age (in years) 18-34	35-54	55 or over
Self-employed	$17,000	$15,000*	$24,000	$21,000*
Farm operators	14,000	9,000*	15,000	21,000*
Managers and officials	8,000	3,000*	10,000*	14,000*
Professional workers	6,000	2,000	9,000	23,000*
Clerical and sales workers	3,000	1,000	5,000	13,000*
Skilled and semi-skilled workers	3,000	1,000	5,000	7,000
Unskilled and service workers	400	200	500	3,000*
All occupations	4,000	1,400	6,000	9,000

*Based on under 100 spending units.

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TABLE 11
REGIONAL VARIATIONS IN THE PROPORTIONS OF SPENDING UNITS WITH NET WORTH OF DIFFERENT AMOUNTS

Net Worth	All regions	Region: North East	North Central	South	West
Zero or negative	15	16	10	22	12
$1-4,999	38	42	36	40	32
5,000-49,999	42	39	49	35	50
50,000 and over	4	3	5	3	6
Total	100	100	100	100	100
Number of interviews	3,097	898	1,033	778	388

he put into getting to be a dentist, an accountant or whatever he may be. I think that tends to account for the striking increase.

I suppose you people regard a professional worker in the younger age group as a comparatively good risk. I certainly would compared to some of the next categories. The increase for clerical and sales workers is also striking, but that I believe has a different explanation. I think there are many clerical workers in the 18-34 age group who are secretaries, typists, clerks, and many have dropped out of the labor force. So the 55 or over age group of clerical and sales workers includes more of the serious professional salesmen, and the increase in the numbers is partly just because we have a somewhat different population we are talking about. The unskilled and service workers never do get to a very high net worth, as you can see. They go from \$200 to \$500 to \$3000 in the oldest age group.

There is one other factor besides age and occupation which clearly influences net worth. That is the region of the country you are talking about. Conditions are not the same from one region to the next. (Table 11) The most striking differences are between the South and the rest of the country. Those of you from the South, I am sure, are well aware that the net worth distribution there would not be the same. There is about 22 per cent there in the zero or negative category compared to 15 per cent for the country as a whole.

Table 12 does something different. There we have ranked all the units that we found by income. We divided them into tenths and got the lowest tenth up to the highest tenth. The highest tenth is people with incomes over \$6110, or thereabouts, in 1953. The bottom tenth is people with incomes under \$940. Looking at the last column you see that the people with the highest incomes have more than their share of the net

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TABLE 12
SHARES OF TOTAL ASSETS, TOTAL DEBT, AND NET WORTH HELD BY INCOME GROUPS

Income Position[1]	Proportion of Total Assets	Proportion of Total Debt	Proportion of Net Worth
Lowest tenth per cent (under \$940)	5	3	5
Second tenth (under 1,580)	5	3	6
Third tenth (under 2,160)	5	3	5
Fourth tenth (under 2,670)	5	5	5
Fifth tenth (under 3,150)	5	6	5
Sixth tenth (under 3,610)	7	8	6
Seventh tenth (under 4,200)	7	11	7
Eighth tenth (under 4,890)	10	14	9
Ninth tenth (under 6,110)	12	20	11
Highest tenth (over 6,110)	39	27	41
Total	100%	100%	100%

[1] Spending units were ranked by income and then divided into ten equal groups.

worth, which will surprise no one. It turns out to be the top 10 per cent who have 41 per cent of the net worth, the next 10 per cent, about 11 per cent of the net worth.

You may be a little less familiar with the second column here. The top two tenths there are those who owe most of the money. As a rough estimate, half of the money that is owed on houses, personal debt, and so on, is owed by this top 20 per cent of the income distribution.

It is the next groups, however, that we think of when we say that debt is a middle-income phenomena. If you look at the total assets and total debt columns together you will see the proportion of the debt accounted for by the fifth tenth is 6 per cent, but they account for only 5 per cent of the assets. The sixth tenth has 8 per cent of the debt and only 7 per cent of the assets; the seventh tenth has 11 per cent of the debt and 7 per cent of the assets; and the eighth tenth has 14 per cent of the debt and 9 per cent of the assets; the ninth tenth has 20 per cent of the debt and 11 per cent of the assets. It is these four segments of the population that owes a larger proportion of the money than they have of the assets.

There is another way of looking at the relation between net worth and income. (Table 13) We took each unit in our sample and compared the two. We asked this question: Which is the bigger, the man's income or his net worth? It turned out that half the population had net worth equal to about one year's income, with half under that and half over it. Eight per cent had net worth equal to 10 years' income. That is what the 1000 per cent means. At the other end we have people with either no income or no net worth, about 16 per cent of the population.

The relative importance of the assets and income of course varies with

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TABLE 13
DISTRIBUTION OF SPENDING UNITS BY NET WORTH/INCOME RATIO

Net Worth/Income		Per cent
Negative or zero net worth, Negative or zero income		16
Under 100%		33
100% or over		51
100-199	15	
200-299	9	
300-499	10	
500-999	9	
1,000 or more	8	
Total		100
Number of interviews		3,097

the age. That is shown in Table 14. I just said that half the units had net worth equal to about a year's income. If you take each age group separately, however, you do not find half in each class. Of the people aged 18 to 24 years, only 8 per cent have net worth of a year's income in their assets. That rises to the oldest age groups, where you have roughly three-fourths of the units with one year or more of income in their assets.

I have said little about the perspective look at the debt. These next two rows do bring us back to that. The proportion of units to total debt rises in the 25-34 year old age group there, a pattern which I think is familiar to you, and falls off very sharply at the end to 29 per cent.

The next row shows what happens to debt as a proportion of total assets for the group. There you see a uniform decline throughout. The lowest age group shows the highest ratio of debt to total assets. For that group debt amounts to 41 per cent of all their assets. That falls regularly to a mere 4 per cent for the highest age group. I think the explanation for that appears primarily in the next two rows which have to do with families owning their home.

The proportion of families who own their homes increases quite steadily throughout. The big jump is in the 25-34 group we are talking about. After they buy the car they buy the home. The last row shows the proportion of people who own their homes free of debt. Only 2 per cent

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TABLE 14
NET WORTH/INCOME RATIO AND OTHER STATISTICS WITHIN AGE GROUPS
IN PER CENT

	Age of Head of Spending Unit						
	All Ages	18-24	25-34	35-44	45-54	55-64	65 and over
Proportion of spending units with net worth equal to one year's income or more	51	8	36	50	64	72	73
Proportion of spending units owing either personal or mortgage debt	62	62	78	72	66	49	29
Debt as a per cent of total assets (average for the group)	13	41	34	22	9	6	4
Proportion of families (nonfarm) owning their home	54	14	40	57	60	63	69
Proportion of families (nonfarm) owning their home free of debt	25	2	7	19	28	43	55

of the 20-year-olds own their homes free of debt. I suppose most of these must have inherited it. Then in the next age class the proportion begins to rise. That rise continues steadily until finally it reaches 55 per cent for the oldest age group. That, I would say, is a tribute to the financing of owner-occupied homes. It represents an accomplishment that many people have been able to own their homes clear of debt.

To summarize just in a word, we have been looking at the balance sheet, and as a single number represents the balance sheet, most of the discussion has been focused on the net worth position of spending units. We found four factors which are associated with that: The age of the head of the unit, his net worth, his occupation, his region of the country, and, of course, his income.

Questions From The Floor

Paul L. Selby: May I start with a question of Dr. Lansing?

Apparently you must have had dollar figures when you set up these percentages?

Dr. Lansing: Yes, we did.

Mr. Selby: I was looking through the sheets for the gross asset value and indebtedness and net worth. Did you project a total across the whole population in dollars?

Dr. Lansing: We did do that. I have stayed away from that this morning, because I think it seems as if it meant more than it does; that is, not all the assets are in there, and probably all the debts are not in there. Certainly there are errors; certainly there are some parts of the population (John D. Rockefeller) who are not properly represented. So I left that number out. It was published in the *Federal Reserve Bulletin*. If you are curious about it, sir, you can find it there. I think it was August 1953, or within a month or so of that.

Ernst Dauer: Professor Lansing, I wonder if you would hazard a guess as to what the effect would be if you had done two things differently: If instead of putting in car values at what I assume are the blue book values, which gives the absurd figures for the cars owned by the people in the 45 to 50 income group as $390, or something like that—if instead of that you had made some attempt to amortize the cars over their normal life, and if as a second thing you had made an attempt to put in durable goods other than cars and homes, what would the net effect have been? Would you hazard a guess on that?

The reason I am asking the second question particularly is this: The other survey figures show that the young marrieds buy refrigerators and furniture, and so forth, which represents a substantial investment to them and for which they incur debt. The debt has gone into these figures but the assets have not, even though those assets are relatively new and would have a substantial value.

If you had done those two things differently, would it have changed your conclusions, or haven't you thought about that?

DR. LANSING: We have thought about that, especially about the second. If we had somehow valued the furniture, and so on, it surely would have indicated that the young people are saving more; that is, it would show higher assets, particularly in the younger age groups where these things are relatively important, or more important. And certainly it would show fewer people with negative net worth. I think that proportion should be regarded simply as a number we came up with because of the way we went about it.

As far as the automobiles are concerned, I think the peculiarity of some of the numbers is because some people don't have cars. One should not infer that the $390 is the typical value of a car, you see. This is as if you somehow divided all the cars equally, even though some people have not got them. We did take the retail price, not the wholesale price of the cars, so I don't think a changed procedure there would have made too much difference, though it would have relatively improved the position of the younger people somewhat.

THOMAS W. ROGERS: This point Dr. Dauer makes I think is rather an important one for the reason that there seems to be a considerable number of people who have the idea that people are over-loaded with debt. When we come to analyze the qualitative aspect of debt in realization to the quantitative aspect of debt, we are going to get a proper balance only with the assets as the countervailing item over against the liability side. That becomes particularly important for these younger groups where, as you have indicated, a relatively larger percentage of current disposable income is being allocated to investment in durable goods, which according to some studies runs as high as 25 per cent in the earlier years.

DR. COLE: I wonder if you happen to know, Professor Lansing, whether any of the Congressional committees have seen and used these figures in their investigation of the plight of the poor farmer today?

DR. LANSING: There are two ways of looking at these. One is to say, Look how rich the farmer is. He has all that capital. The other is to say, He has all that capital invested and he still can't make any money. I guess it depends on which party you belong to.

PROFESSOR WILLIAM HENRY BLAKE: I notice here you list just bonds and bank accounts. I assume you took into consideration the insurance these people owned as part of their liquid assets; or if you did not, what was your reasoning along that line?

Secondly, as I look through these I am impressed with the fact that the liquid assets in all instances are in excess of the total liabilities, even though you include the personal debt, the farm debt, mortgages. I wonder why the public is so worried about the amount of consumer debt when you look at the liquid assets alone which more than exceed the amount of liabilities. Do you have any thinking on that?

Dr. Lansing: Life insurance is not included. The reason for that is pretty largely because of the difficulty of evaluating it. You cannot ask a man what the cash value of his life insurance is. You get into rather serious difficulties. Some is term insurance, some endowment insurance, obviously quite different. It was just a question of the resources we could put into it. There is no doubt that insurance belongs on the list of assets.

As far as the relation between assets and debt is concerned, I think everyone would agree that it isn't so much a question of everyone in general and all consumers being in trouble. The issue is whether there are particular consumers who have a liquid asset and debt position that may be less favorable rather than how many there may be for the group as a whole. These figures show quite clearly that consumers collectively have assets far in excess of their debts.

Dr. Selby: May we ask Professor Smock for an evaluation of these statistical surveys of the family position, taking into account that the young married couples have just come out of college or high school with the biggest investment in their life period in education, and in the creation, the origin of a home and the asset values there. What effect upon a family's social status, from a sociological viewpoint, does this early formation of debt have? Is it a look-up or a look-down for the family?

Professor Smock: That is a big question. One of the funny things about this middle-class status business is that it used to be a repeating cycle for middle-class generations. Say the young farmer pretty much expected to start out working on someone else's farm, and eventually to reach in middle age the status position of his parents.

In terms of the possessions that characterize middle-class families I think it is more common now for people at the time of marriage to expect the possessions their parents possess. They do not expect to start from scratch. If their mothers had a washing machine they expect a washing machine, and perhaps a drier. This puts pressures in terms of status on today's young people that yesterday's young people did not feel.

There is a compensating factor. Being just married is a status in itself. Being just married and having used furniture or an incompletely furnished house or an old car is not embarrassing. But rather quickly this status fades. I am not talking about the difficulties of maintaining a romance in marriage or anything like that, but being just married does not last very long, and pretty soon if the young family is to feel it is getting ahead it must begin to have the things it has expected to have.

This is certainly a factor in the young family's extensive use of credit. If it didn't have this credit it would be in a very difficult position in terms of its status and its satisfaction with itself. As long as the credit is there, and the job opportunities are there enabling it to attain the income to use this credit effectively, I don't think there is any big problem in these high aspirations of today's young people. Under less favorable economic circumstances this could be quite a serious social problem.

DR. SELBY: What does it do to the economy when you advance that demand?

PROFESSOR SMOCK: The reason so many drove here in new cars is that this demand has been advanced. It is obviously good for the economy. All I want to do is keep an eye on the rate of repayment.

MR. ROGERS: These pressures which you are talking about here contribute, as was said a moment ago, to this allocation of resources, and account for the fact that throughout the whole of our population perhaps from 12 to 15 per cent of our disposable income is allocated to durable goods, when we look at the whole population. Yet if you take the lower-age groups, as indicated a moment ago, 25 per cent of their income during certain periods of time will be allocated to durable goods.

DR. BARTELS: In view of Professor Smock's statements, I wonder if an effort is being made to get a qualitative picture of the wealth in the hands of the consumers, so the two viewpoints could be reconciled?

DR. LANSING: It would be very interesting to do, to try to construct an inventory. It would be hard to add up but we might be able to construct an inventory of what items people had. Nobody has yet put the necessary resources into it to carry out such an investigation. We have some information about this, of course, but a really complete job so far as I know has never been carried out.

MR. ROGERS: I might say to Dr. Bartels that one of the reasons the Arrangements Committee put this general subject on the program this morning was to spark interest in the situation with the hope that in the period to come we could expand and eliminate some of the known weaknesses that we have in these data now, and create a broader base.

STATISTICAL SUPPLEMENT

Alan S. Jeffrey

The following statistical tables* present the basic picture of consumer instalment credit in the United States as of the end of 1955.

*(These tables were prepared by a sub-committee of the Steering Committee of the National Conference on Consumer Credit. This sub-committee consisted of William H. Blake, Executive Assistant, National Consumer Finance Association, Albert R. Miller, Jr., Director of Economic Research, National Foundation for Consumer Credit, and Alan S. Jeffrey, Assistant to the Executive Vice President, American Finance Conference).

A. INSTALMENT CREDIT AND DISPOSABLE INCOME
(Instalment Credit by major parts in millions of dollars, and as percentages of disposable income)

End of Year	Automobile Credit			Other Consumer Goods Paper			Rep. & Modern. Loans			Personal Instal. Loans			Total Instalment Credit			End of Year
	Extended	Repaid	Out.	Extended	Repaid	Out.	Ext.	Rep.	Out.	Ext.	Rep.	Out.	Extended	Rep.	Out.	
1940	$ 3,086	$ 2,512	$ 2,071	$2,588	$2,381	$1,827	$ 328	$ 255	$ 371	$2,217	$2,060	$1,245	$ 8,219	$ 7,208	$ 5,514	1940
		3.3%	2.7%		3.1%	2.4%		0.2%	0.5%		2.7%	1.6%		9.4%	7.2%	
1941	3,823	3,436	2,458	2,929	2,827	1,929	312	307	376	2,361	2,284	1,322	9,425	8,854	6,085	1941
		3.7%	2.6%		3.0%	2.1%		0.3%	0.4%		2.5%	1.4%		9.5%	6.5%	
1942	1,022	2,738	742	2,176	2,910	1,195	142	263	255	1,899	2,247	974	5,239	8,158	3,166	1942
		2.3%	0.6%		2.5%	1.0%		0.2%	0.2%		1.9%	0.8%		6.9%	2.6%	
1943	762	1,149	355	1,985	2,361	819	102	227	130	1,738	1,880	832	4,587	5,617	2,136	1943
		0.8%	0.3%		1.8%	0.6%		0.2%	0.1%		1.4%	0.6%		4.3%	1.6%	
1944	930	888	397	1,957	1,985	791	124	135	119	1,883	1,846	869	4,894	4,854	2,176	1944
		0.6%	0.3%		1.3%	0.5%		0.1%	0.1%		1.3%	0.6%		3.3%	1.5%	
1945	999	941	455	2,024	1,999	816	206	143	182	2,150	2,010	1,009	5,379	5,093	2,462	1945
		0.6%	0.3%		1.3%	0.5%		0.1%	0.1%		1.4%	0.7%		3.4%	1.6%	
1946	1,969	1,443	981	3,077	2,603	1,290	423	200	405	3,026	2,539	1,496	8,495	6,785	4,172	1946
		0.9%	0.6%		1.6%	0.8%		0.1%	0.3%		1.6%	0.9%		4.2%	2.6%	
1947	3,692	2,749	1,924	4,498	3,645	2,143	704	391	718	3,819	3,405	1,910	12,713	10,190	6,695	1947
		1.6%	1.2%		2.2%	1.3%		0.2%	0.4%		2.0%	1.1%		6.0%	4.0%	
1948	5,280	4,150	3,054	5,280	4,581	2,842	702	577	843	4,278	3,959	2,229	15,540	13,267	8,968	1948
		2.2%	1.6%		2.4%	1.5%		0.3%	0.5%		2.1%	1.2%		7.0%	4.8%	
1949	7,182	5,537	4,699	5,533	4,889	3,486	721	677	887	4,566	4,351	2,444	18,002	15,454	11,516	1949
		2.9%	2.5%		2.6%	1.8%		0.4%	0.5%		2.3%	1.3%		8.2%	6.1%	
1950	8,928	7,285	6,342	6,458	5,607	4,337	826	707	1,006	5,044	4,683	2,805	21,256	18,282	14,490	1950
		3.6%	3.1%		2.7%	2.1%		0.3%	0.5%		2.3%	1.3%		8.8%	7.0%	
1951	9,362	9,462	6,242	6,518	6,585	5,270	853	769	1,090	6,058	5,628	3,285	22,791	22,444	14,837	1951
		4.2%	2.8%		2.9%	1.9%		0.3%	0.5%		2.5%	1.4%		9.9%	6.6%	
1952	12,306	10,449	8,099	7,959	6,901	5,328	1,243	927	1,406	6,889	6,273	3,851	28,397	24,550	18,684	1952
		4.4%	3.4%		2.9%	2.3%		0.4%	0.6%		2.7%	1.6%		10.4%	7.9%	
1953	13,621	11,379	10,341	8,014	7,511	5,831	1,387	1,144	1,649	7,299	6,784	4,366	30,321	26,818	22,187	1953
		4.5%	4.1%		3.0%	2.3%		0.5%	0.7%		2.7%	1.8%		10.7%	8.9%	
1954	12,532	12,477	10,396	7,700	7,863	5,668	1,245	1,278	1,616	7,827	7,406	4,787	29,304	29,024	22,467	1954
		4.9%	4.1%		3.1%	2.2%		0.5%	0.6%		2.9%	1.9%		11.4%	8.8%	
1955	17,748	13,832	14,312	9,075	8,308	6,435	1,320	1,295	1,641	9,029	8,309	5,507	37,172	31,744	27,895	1955
		5.1%	5.3%		3.1%	2.4%		0.5%	0.6%		3.1%	2.0%		11.8%	10.3%	

B. NON-INSTALMENT CONSUMER CREDIT
(In Millions of Dollars)

End of Year	Single Payment Loans	Percent of Total	Charge Accounts	Percent of Total	Service Credit	Percent of Total	Total	Percent of Disposable Income	End of Year
1940	$ 800	28.3%	$1,471	52.1%	$ 553	19.6%	$2,824	3.7%	1940
1941	845	27.4	1,645	53.3	597	19.3	3,087	3.3	1941
1942	713	25.3	1,444	51.3	660	23.4	2,817	2.5	1942
1943	613	22.1	1,440	52.1	712	25.8	2,765	2.0	1943
1944	624	21.3	1,517	51.7	794	27.0	2,935	2.0	1944
1945	746	23.3	1,612	50.3	845	26.4	3,203	2.1	1945
1946	1,122	26.6	2,076	49.3	1,014	24.1	4,212	2.6	1946
1947	1,356	27.8	2,353	48.3	1,166	23.9	4,875	2.8	1947
1948	1,445	26.6	2,713	49.8	1,285	23.6	5,443	2.8	1948
1949	1,532	27.4	2,680	48.0	1,376	24.6	5,588	2.9	1949
1950	1,821	28.8	3,006	47.5	1,496	23.7	6,323	3.0	1950
1951	1,934	29.2	3,096	46.7	1,601	24.1	6,631	2.9	1951
1952	2,094	29.3	3,342	46.8	1,707	23.9	7,143	3.1	1952
1953	2,219	30.2	3,411	46.4	1,720	23.4	7,350	2.9	1953
1954	2,420	31.6	3,518	45.9	1,720	22.5	7,658	3.0	1954
1955	2,776	33.3	3,797	45.6	1,757	21.1	8,330	3.1	1955

C. INSTALMENT CREDIT BY HOLDERS
(In Millions of Dollars)

		Held by Financial Institutions						Held by Retail Outlets						
End of Year	Total Instalment Credit	Commercial Banks	Sales Finance Companies	Credit Unions	Consumer Finance Companies	Other Financial Institutions	Total	Department Stores	Furniture Stores	Household Appliance Stores	Auto Dealers	Others	Total	End of Year
1940	$ 5,514	$ 1,452	$1,575	$ 171	$ 498	$222	$ 3,918	$ 394	$474	$196	$167	$365	$1,596	1940
1941	6,085	1,726	1,797	198	531	228	4,480	320	496	206	188	395	1,605	1941
1942	3,166	862	588	128	417	181	2,176	181	331	111	53	314	990	1942
1943	2,136	532	252	103	364	162	1,413	127	235	37	31	293	723	1943
1944	2,176	574	262	99	384	167	1,486	127	230	19	33	281	690	1944
1945	2,462	745	300	102	439	190	1,776	131	240	17	28	270	686	1945
1946	4,172	1,567	677	151	597	243	3,235	209	319	38	47	324	937	1946
1947	6,695	2,625	1,355	235	701	339	5,255	379	474	79	101	407	1,440	1947
1948	8,968	3,529	1,990	334	817	422	7,092	470	604	127	159	516	1,876	1948
1949	11,516	4,439	2,950	438	927	493	9,247	595	724	168	239	543	2,269	1949
1950	14,490	5,798	3,785	590	1,084	563	11,820	743	791	239	284	613	2,670	1950
1951	14,837	5,771	3,769	635	1,306	596	12,077	920	760	207	255	618	2,760	1951
1952	18,684	7,524	4,833	837	1,514	702	15,410	1,117	866	244	308	739	3,274	1952
1953	22,187	8,998	6,147	1,124	1,692	797	18,758	1,040	903	291	380	815	3,429	1953
1954	22,467	8,663	6,421	1,293	1,781	807	18,935	1,201	890	293	394	745	3,532	1954
1955	27,895	10,347	8,938	1,580	2,005	993	23,863	1,423	956	297	556	800	4,032	1955

D. AUTOMOBILE INSTALMENT CREDIT OUTSTANDING
(In Millions of Dollars)

	Commercial Banks				Sales Finance Companies		Other Financial Institutions		Auto Dealers			
End of Year	Purchased	Direct	All	Percent of Total	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Total	Total	End of Year
1940	$ 339	$ 276	$ 615	29.7%	$1,187	57.3%	$102	4.9%	$167	8.1%	$ 2,071	1940
1941	447	338	785	31.9	1,363	55.5	122	5.0	188	7.6	2,458	1941
1942	149	134	283	38.1	341	46.0	65	8.8	53	7.1	742	1942
1943	58	86	144	40.5	131	37.0	49	13.8	31	8.7	355	1943
1944	59	101	160	40.3	153	38.5	51	12.9	33	8.3	397	1944
1945	66	143	209	45.9	164	36.0	54	11.9	28	6.2	455	1945
1946	169	311	480	48.9	377	38.4	77	7.9	47	4.8	981	1946
1947	352	539	891	46.3	802	41.7	130	6.8	101	5.2	1,924	1947
1948	575	753	1,328	43.5	1,378	45.1	189	6.2	159	5.2	3,054	1948
1949	849	946	1,795	38.2	2,425	51.6	240	5.1	239	5.1	4,699	1949
1950	1,177	1,294	2,471	39.0	3,257	51.3	330	5.2	284	4.5	6,342	1950
1951	1,135	1,311	2,446	39.2	3,183	51.0	358	5.7	255	4.1	6,242	1951
1952	1,633	1,629	3,262	40.3	4,072	50.3	457	5.6	308	3.8	8,099	1952
1953	2,215	1,867	4,082	39.5	5,306	51.3	573	5.5	380	3.7	10,341	1953
1954	2,198	1,645	3,843	37.0	5,563	53.5	596	5.7	394	3.8	10,396	1954
1955	2,976	2,099	5,075	35.4	7,939	55.5	742	5.2	556	3.9	14,312	1955

E. CONSUMER GOODS OTHER THAN AUTOMOBILES—INSTALMENT CREDIT OUTSTANDING
(In Millions of Dollars)

End of Year	Commercial Banks	Percent of Total	Sales Finance Companies	Percent of Total	Other Financial Institutions	Percent of Total	Retail Outlets	Percent of Total	Total	End of Year
1940	$ 232	12.7%	$136	7.5%	$ 30	1.6%	$1,429	78.2%	$1,827	1940
1941	309	16.0	167	8.7	36	1.9	1,417	73.4	1,929	1941
1942	153	12.8	78	6.5	27	2.3	937	78.4	1,195	1942
1943	76	9.3	34	4.1	17	2.1	692	84.5	819	1943
1944	87	11.0	28	3.5	19	2.4	657	83.1	791	1944
1945	114	14.0	24	2.9	20	2.5	658	80.6	816	1945
1946	299	23.2	67	5.2	34	2.6	890	69.0	1,290	1946
1947	550	25.7	185	8.6	69	3.2	1,339	62.5	2,143	1947
1948	794	27.9	232	8.2	99	3.5	1,717	60.4	2,842	1948
1949	1,016	29.0	303	8.7	137	4.0	2,030	58.2	3,486	1949
1950	1,456	33.6	313	7.2	182	4.2	2,386	55.0	4,337	1950
1951	1,315	30.8	241	5.6	209	4.9	2,505	58.7	4,270	1951
1952	1,751	32.9	332	6.2	279	5.2	2,966	55.7	5,328	1952
1953	2,078	35.6	367	6.3	337	5.8	3,049	52.3	5,831	1953
1954	1,839	32.4	351	6.2	340	6.0	3,138	55.4	5,668	1954
1955	2,099	32.6	416	6.5	444	6.9	3,476	54.0	6,435	1955

F. Home Repair & Modernization Loans Outstanding
(In Millions of Dollars)

End of Year	Commercial Banks	Percent of Total	Sales Finance Companies	Percent of Total	Other Financial Institutions	Percent of Total	Total	End of Year
1940	$ 165	44.5%	$190	51.2%	$ 16	4.3%	$ 371	1940
1941	161	42.8	201	53.5	14	3.7	376	1941
1942	124	48.6	117	45.9	14	5.5	255	1942
1943	77	59.2	42	32.3	11	8.5	130	1943
1944	75	63.0	33	27.7	11	9.3	119	1944
1945	110	60.4	58	31.9	14	7.7	182	1945
1946	242	59.8	141	34.8	22	5.4	405	1946
1947	437	60.9	242	33.7	39	5.4	718	1947
1948	568	67.4	216	25.6	59	7.0	843	1948
1949	715	80.6	83	9.4	89	10.0	887	1949
1950	834	82.9	57	5.7	115	11.4	1,006	1950
1951	888	81.5	70	6.4	132	12.1	1,090	1951
1952	1,137	80.9	82	5.8	187	13.3	1,406	1952
1953	1,317	79.9	83	5.0	249	15.1	1,649	1953
1954	1,275	78.9	81	5.0	260	16.1	1,616	1954
1955	1,279	77.9	85	5.2	277	16.9	1,641	1955

G. PERSONAL CASH INSTALMENT LOANS OUTSTANDING
(In Millions of Dollars)

End of Year	Commercial Banks	Percent of Total	Sales Finance Companies	Percent of Total	Consumer Finance Companies	Percent of Total	Other Financial Institutions	Percent of Total	Total	End of Year
1940	$ 440	35.3%	$ 62	5.0%	$ 498	40.0%	$ 245	19.7%	$1,245	1940
1941	471	35.6	66	5.0	531	40.2	254	19.2	1,322	1941
1942	302	31.0	52	5.3	417	42.8	203	20.9	974	1942
1943	235	28.3	45	5.4	364	43.8	188	22.5	832	1943
1944	252	29.0	48	5.5	384	44.2	185	21.3	869	1944
1945	312	30.9	54	5.4	439	43.5	204	20.2	1,009	1945
1946	546	36.5	92	6.1	597	39.9	261	17.5	1,496	1946
1947	747	39.1	126	6.6	701	36.7	336	17.6	1,910	1947
1948	839	37.6	164	7.4	817	36.7	409	18.3	2,229	1948
1949	913	37.3	139	5.7	927	37.9	465	19.1	2,444	1949
1950	1,037	37.0	158	5.6	1,084	38.6	526	18.8	2,805	1950
1951	1,122	34.7	275	8.5	1,306	40.4	532	16.4	3,235	1951
1952	1,374	35.7	347	9.0	1,514	39.3	616	13.0	3,851	1952
1953	1,521	34.8	391	9.0	1,692	38.8	762	17.4	4,366	1953
1954	1,676	35.0	426	8.9	1,781	37.2	904	18.9	4,787	1954
1955	1,894	34.4	498	9.0	2,005	36.4	1,110	20.0	5,507	1955

FAMILY STANDARD OF LIVING IN 1965

by STAHRL EDMUNDS

I have four major parts to my talk. The first is a quick review of 1955, to learn where we have been or where we start from. The second part is concerned with where we are going, the long leap into 1965. The third suggests the opportunities for growth in consumer credit during this coming period, and the last portion is the benediction or the good word for consumer credit.

I am going to start first with the extent of the durable goods boom during the last year. (Chart 1) This chart shows that the automobile business, while big and booming, has been surpassed in sales by a few

CHART 1
AUTOMOBILES RANK 6TH AMONG CONSUMER DURABLES IN PERCENT SALES INCREASES FROM 1954 TO 1955

Rank	Item	Number Sold In Thousands of Units 1954	Number Sold In Thousands of Units 1955	Per Cent Change
1	Frypan Skillet, Electric	1,100	2,660	+142
2	Lawn Mowers, Power	1,350	2,103	+ 56
3	Dryers	941	1,405	+ 49
4	Mixers, Food	2,240	3,240	+ 45
5	Dish Washers	215	295	+ 37
6	Automobiles	5,474	7,409	+ 35
7	Washing Machines, A.T.	2,401	3,187	+ 33
8	Irons	3,850	5,100	+ 32
9	Radios	6,276	7,800	+ 24
10	Cleaners, Vacuum	2,792	3,440	+ 23
11	Shavers	3,950	4,750	+ 20
12	Kitchen Cabinets	3,372	4,046	+ 20
13	Ranges	1,350	1,600	+ 19
14	Heaters	2,660	3,070	+ 15
15	Heating Pads	1,675	1,920	+ 15
16	Fryers	1,995	2,275	+ 14
17	Refrigerators	3,600	4,025	+ 12
18	Freezers	990	1,100	+ 11
19	Toasters	3,110	3,350	+ 8
20	Television	7,346	7,905	+ 8
21	Air Conditioners	1,230	1,290	+ 5

Source: Electrical Merchandising

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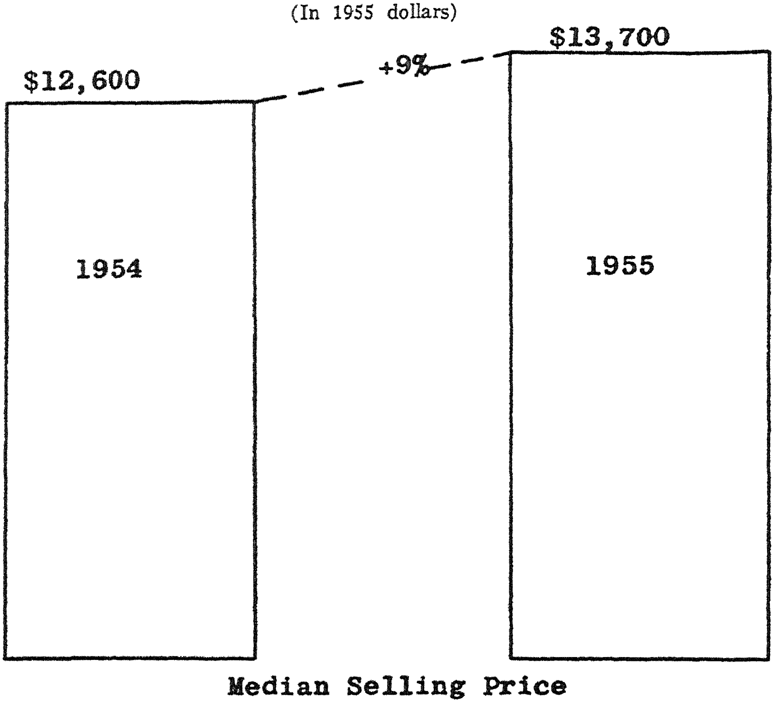
products. You will notice that among the durable goods sold last year, automobiles were sixth in percentage increase over the year previous. We were exceeded by some new items such as the new fry skillets, and some of the older items such as driers, mixers, and dish washers. Of course the largest in terms of volumes of dollars has been the increase in automobiles.

Increased expenditures occurred not only in terms of the ordinary durables, but also in terms of housing. Consumers increased their outlay on housing a great deal. Chart 2 shows a 9 per cent increase in the outlay for homes.

The increase was occasioned, as is shown in Chart 3, by a large increase in the floor space people desired. They wanted more medium-sized homes. The homes from 800 square feet up to about 1500 square feet increased sharply in their percentage distribution compared to 1954, while the small and large homes declined.

CHART 2
CONSUMERS INCREASED HOUSING OUTLAYS BY $1,100 FROM 1954 TO 1955 TO BUY MORE HOUSE
(In 1955 dollars)



Source: Economic Studies from Bureau of Labor Statistics Data.

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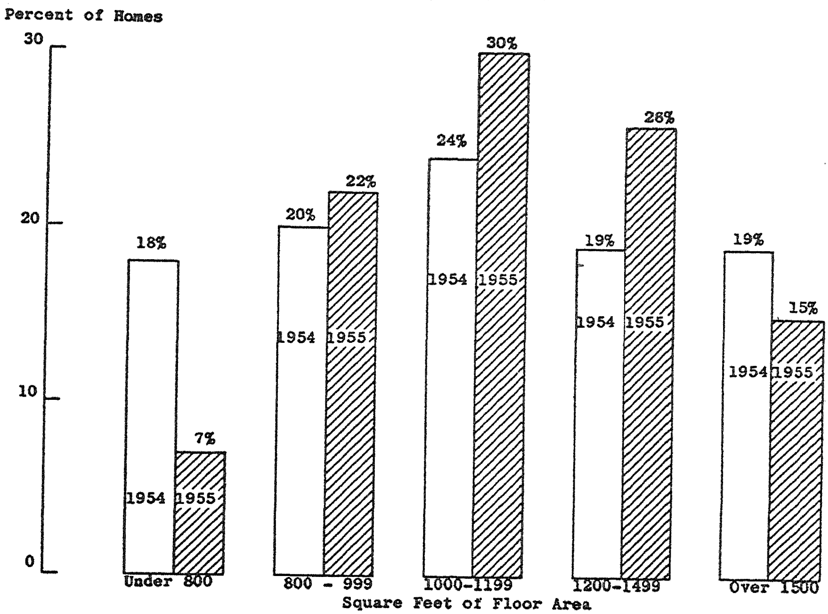
CHART 3

Consumers Are Buying More Medium Sized Homes with Larger Floor Area



Source: Economic Studies from Bureau of Labor Statistics Data.

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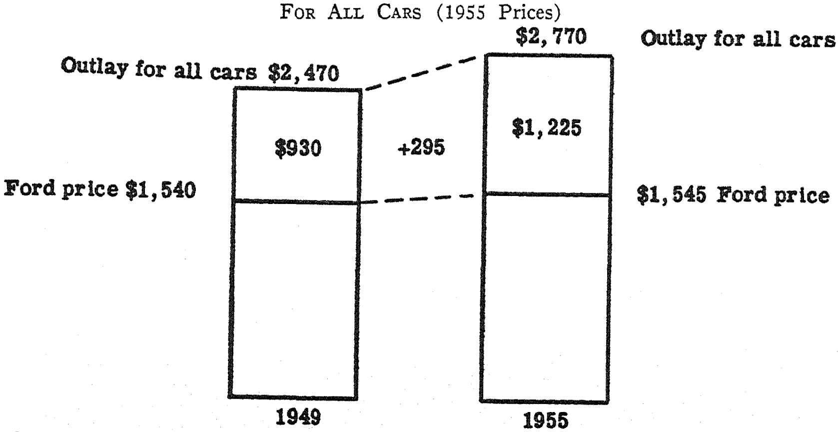
CHART 4

Wider Price Spread Now Between Ford Minimum Car and Average Outlay For All Cars (1955 Prices)



Source: Automobile outlay from Survey Research Center. Ford Minimum based upon cheapest Mainline Tudor 6, without accessories, at price paid by customer as determined by Market Facts shopping study.

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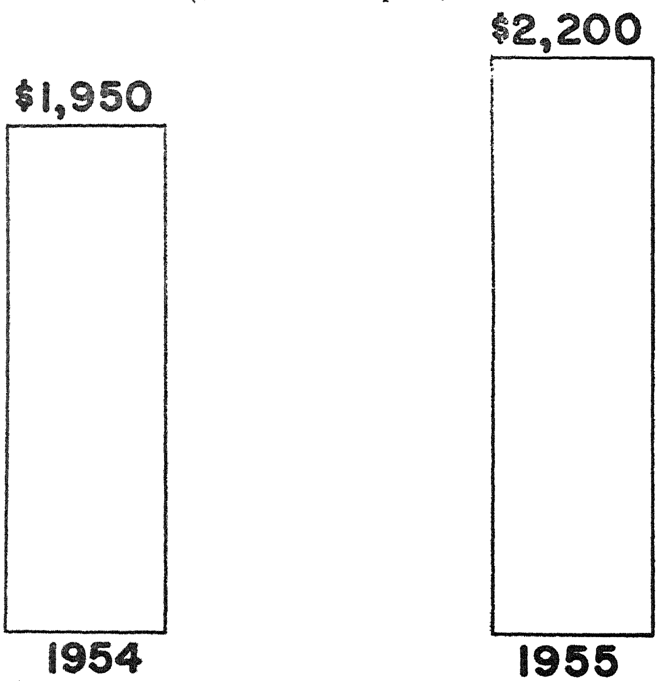
(Chart 4) There has also been a large increase in outlay between 1949 and 1955, on the amount of money spent on cars, in fact, about $54 a year. In other words, people want more space, more value, a better product. Products which offer better value are the ones which consumers buy. It should be noted that although the total outlay has increased about $300, a basic car, without the accessories and extras, has remained practically unchanged in price over this period when we take account of the change in the cost of living or the consumer price index.

(Chart 5) The amount of credit for new car transactions rises as the outlay rises. Since we have had an increase in the outlay on most of the major durables over a period of time, we have tended to have an increase in the amount which is financed. Last year the increase was about $250 (Chart 6). This increase in the amount financed would ordinarily be accompanied by an increase in the payments for the purchaser, but this generally has not been the case.

CHART 5
AVERAGE AMOUNT OF CREDIT IN NEW CAR TRANSACTIONS
UP $250 IN 1955 OVER 1954
(Sales Finance Companies)



Source: Economic Studies from Federal Reserve Board Data.

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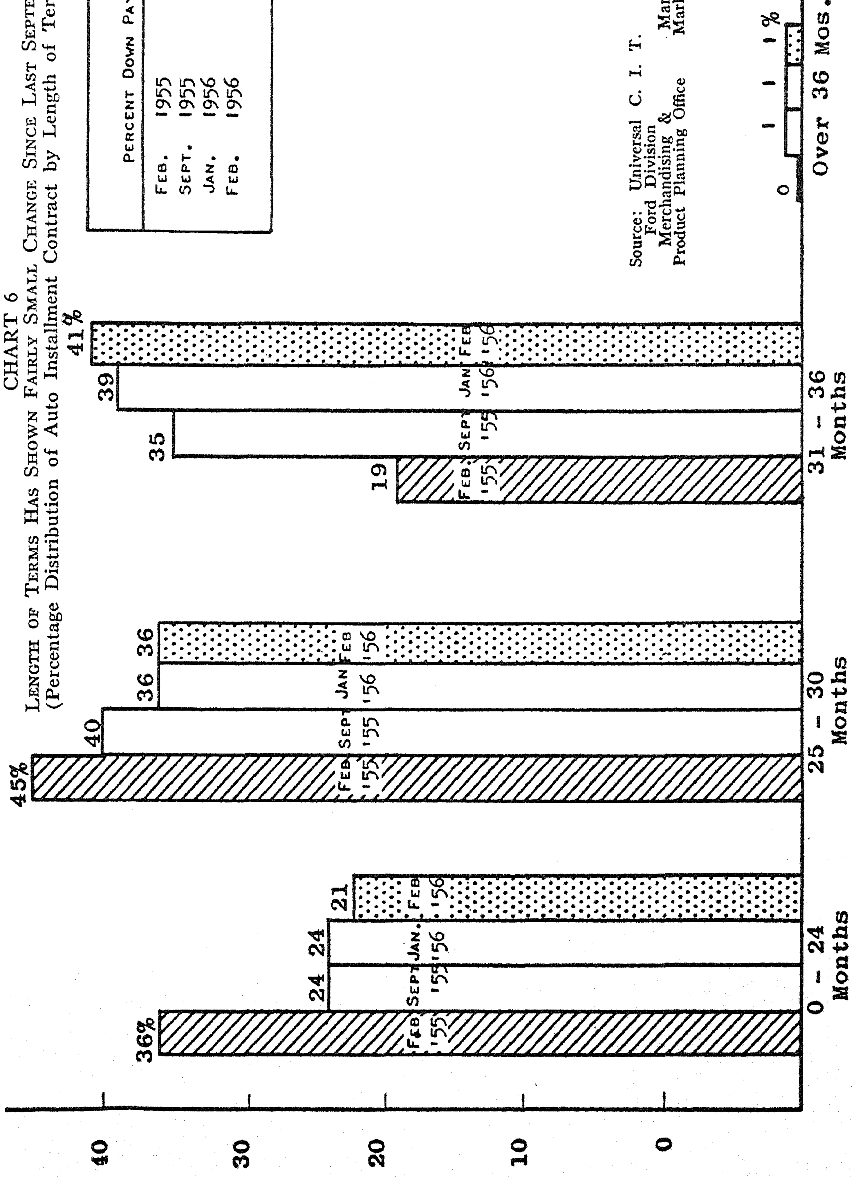
CHART 6

LENGTH OF TERMS HAS SHOWN FAIRLY SMALL CHANGE SINCE LAST SEPTEMBER
(Percentage Distribution of Auto Installment Contract by Length of Term)



PERCENT DOWN PAYMENT	
FEB. 1955	37%
SEPT. 1955	35%
JAN. 1956	36%
FEB. 1956	37%

Source: Universal C. I. T. 4-9-56
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The increase in the average extensions, and the financing of the larger consumer outlays, were benefited by an extension of the terms.

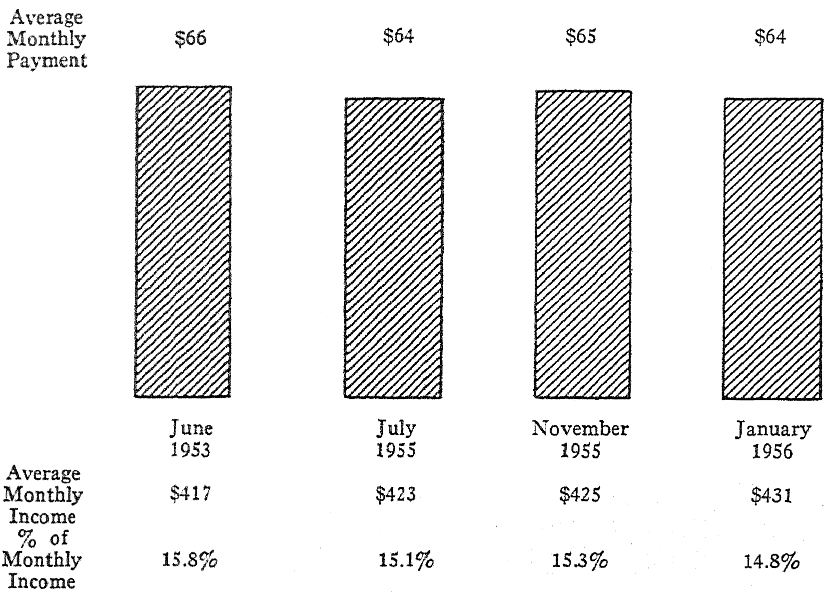
Chart 6 shows that there has been no substantial change in terms since about September of last year. There was a very sharp drop in the short-term contracts during the early part of the year, and there has been a general increase in it once, 31 to 36 months.

This has had the effect, as shown in Chart 7, of making it possible for consumers to buy new cars with substantially the same monthly payment and actually a slightly decreasing proportion of their incomes. As a result of this favorable relationship between monthly payments and incomes there has been very little change in delinquencies over the period. As a matter of fact they have shown some improvement even during the last month.

Chart 8 illustrates the fact that the exposure to loss on cars is very little. In fact, there is quite a comfortable margin between the net time balance, the lower line, and the wholesale price of a car which represents its collateral value. This happens to be the case of a Ford Customline V-8 with standard accessories and standard transmission. The gross time balance includes unearned premium and insurance. We have taken these out to arrive at the net time balance, which is the amount really at risk.

CHART 7

MONTHLY INSTALLMENT PAYMENTS BY NEW CAR BUYERS SHOWS LITTLE CHANGE



Source: Tabulation of U. C. I. T. data by Consumer Research, Central Staff.
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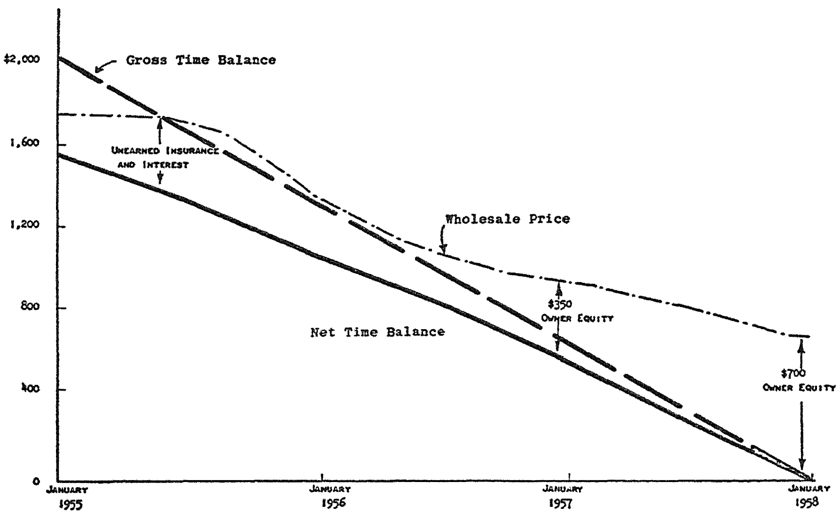
You will notice that the dotted line, the wholesale value of the car, at all points exceeds the net time balance, the lower line, by a fairly good margin. The only thing one might say about this situation is that, because of longer terms, the owners do not build up as much equity. However, the chart illustrates the fact that the down payment is the crucial factor in protecting the principal at risk, and that actually the term could be even longer than it is if one did not wish to see the buyer increase his equity or build it up to the point where he could trade in for a new car at some time.

Chart 9 shows a somewhat different situation, because it shows the wholesale value of a car purchased toward the end of a model year, about in July. Here the wholesale value has declined in relationship to the net time balance, with the result that there is more possibility of loss on this type of credit. At least, there is not as comfortable a cushion or margin. It is possible, I suppose, that if repossession costs are large, and if the time lag between the delinquency and the repossession is long, there could be some loss.

In general I think that these charts tend to illustrate that the automobile installment credit has been basically sound. It is well supported both by income and by the value of the cars or the collateral. In spite of these things, then, why is there so much interest at this time in con-

CHART 8

No Loss Exposure on January 1955 Sales at One-Fourth Down, 36 Months
Customline V-8, Fordor, with standard transmission and usual accessories



Source: New car prices from Market Facts shopping studies; wholesale prices from Automotive Market Reports; insurance cost is that for class one risk in Detroit. Adjustments of gross to net time balance reflect Michigan laws.

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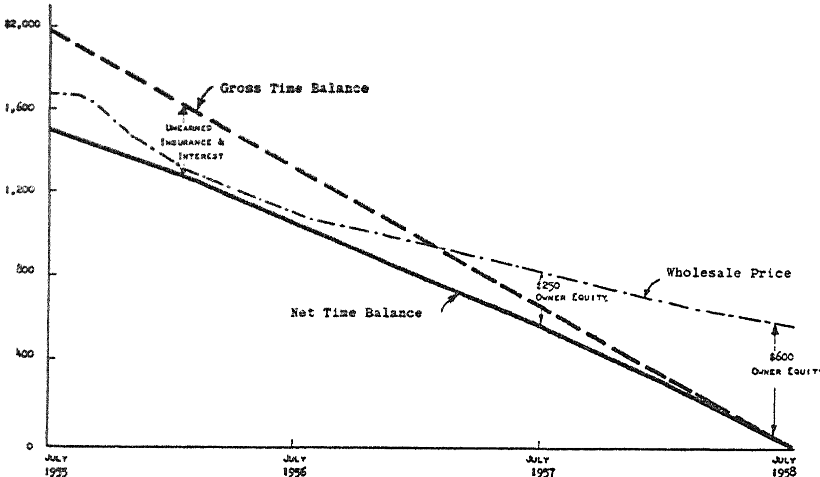
CHART 9

POSSIBILITY OF LOSS GREATER ON SALES AT MAXIMUM TERMS TOWARD END OF MODEL YEAR
Customline V-8, Fordor, with standard transmission and usual accessories
One-fourth down, 36 months



Source: New car prices from Market Facts shopping studies; wholesale prices from Automotive Market Reports; insurance cost is that for class one risk in Detroit. Adjustments of gross to net time balance reflects Michigan laws.

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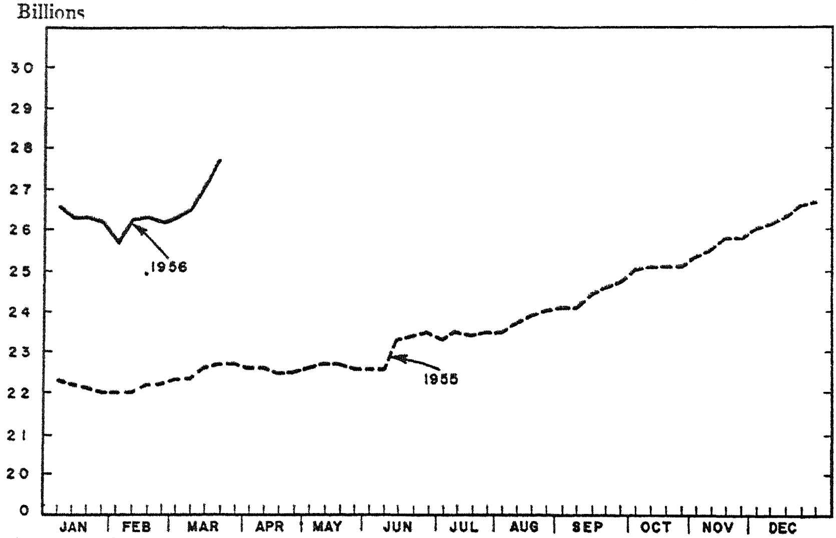
CHART 10

BUSINESS LOANS HAVE INCREASED BY $1 BILLION DURING FIRST QUARTER

Billions



Source: Federal Reserve Board.

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sumer credit in terms of its effect on the economy? I think these charts would tend to allay any fears one has about consumer credit.

However, this year credit presents a problem for another reason, (Chart 10), largely because of the increase in business loans. There has been about a billion dollar increase in business loans during the first quarter, most of it during March for tax borrowing. This borrowing also reflects some inventory buying and capital expenditure needs by business. This large increase in business loans has put new pressure on bank reserves. The free reserves of the bank become smaller and smaller through the year until finally they become a substantial negative figure of about $500 million. There was some improvement in the negative free balances during December. They rose to about a quarter of a billion and remained there for January and February. Now they have dropped again to the point where loans and discounts of the member banks exceed their excess reserves by about $425 million. The effect of this, of course, has been to raise the interest rate throughout the period.

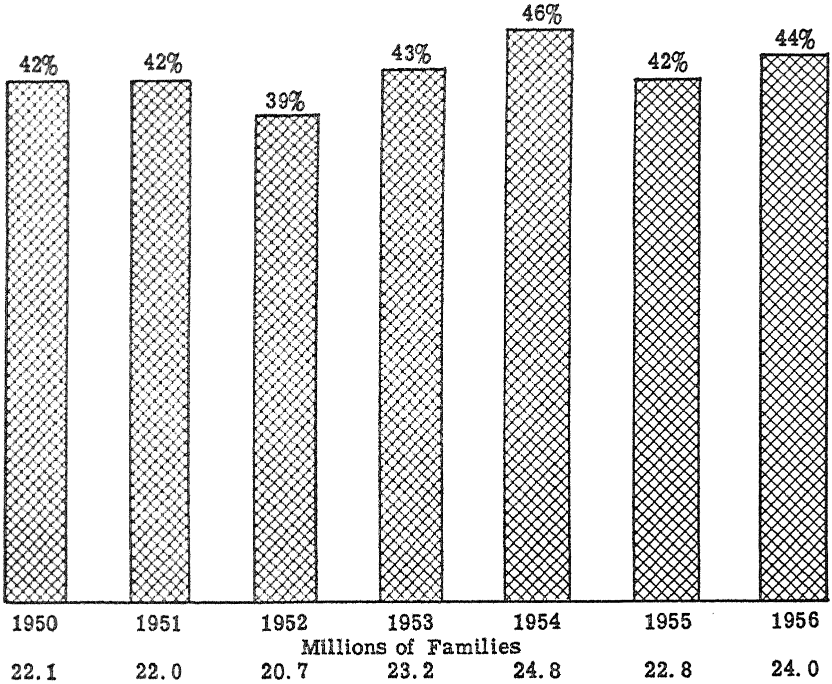
I would like to summarize the current credit situation. There has been a large expansion in business loans during the first quarter by a billion dollars, and this has been necessary to finance tax payments, inventory and capital equipment. Secondly, by comparison the increases in consumer installment credit have been moderate. We estimate them to be perhaps $200 million to a quarter at the most. Thirdly, terms on automobile installment loans have shown little change since last August, and have remained low. The distribution of maturity length, however, shows some gain in the 31-36 month contract at the expense of the under 24 month contract.

On the negative side the Federal Reserve has allowed tightness to develop in the money market by failing to supply added reserves as business demands for funds have expanded. Negative free reserves increased sharply. While interest rates on commercial paper have not yet changed, interest rates have risen on long-term bonds and brokers' loans. Higher rates may extend on other borrowings.

The last one may be the understatement: Around midyear when the Treasury again enters the money market seeking to borrow, there will be less corporate funds than last year to invest in government securities. With bank credit already tight, the Federal Reserve Board may again be faced with the dilemma whether to allow a bit more inflation or whether to tighten the boom. I think the understatement may be that this will not happen at midyear; but it probably occurs in the minds of the people in Washington right now.

(Chart 11) We come out of the year 1955 with families still in a very strong position as far as the liquid assets are concerned. There has been very little change in the per cent of families holding $500 or more in liquid assets. We look at the $500 figure because it is pretty close to a

CHART 11
44 PERCENT OF FAMILIES HOLD $500 OR MORE LIQUID ASSETS*



*Holdings of checking and savings accounts, saving and loan and credit union shares and U. S. Government Bonds early in indicated years.
Source: Federal Reserve Board, Survey of Consumer Finances.

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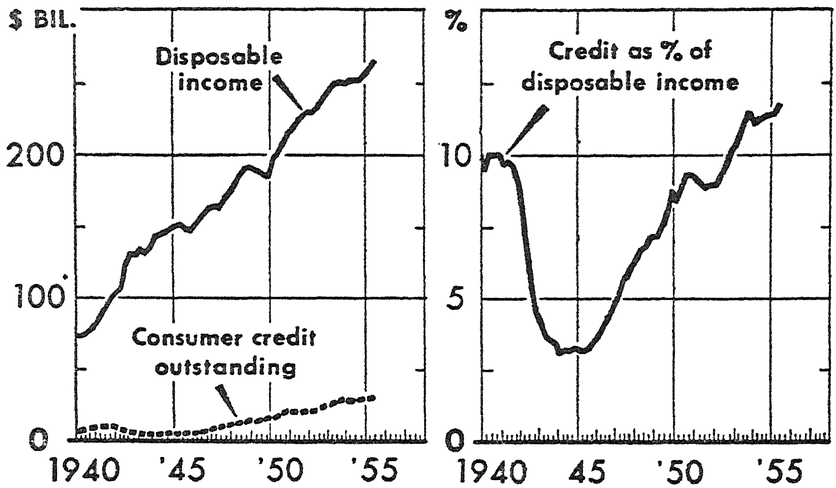
down payment on a car. In spite of the borrowing and large sales, families are in a strong financial position.

(Chart 12) I don't suppose one could make a study on consumer credit without putting in this chart on the relationship between consumer credit and income. The percentage of credit to income has been rising but it is not particularly high relative to the earlier period of 1940. I think the other charts in terms of delinquency, the relationship of an installment payment to the weekly income of workers who have purchased automobiles, and the exposure charts, are much more important in judging the quality of risk than this one is. It is very hard to arrive at a judgment as to what this one means. In view of the other circumstances it does not seem to me this is particularly high nor alarming.

Now let us start from here, and take our leap ahead. Another marriage boom will start in a few years. Chart 13 deals with the number of indi-

CHART 12
CONSUMER INCOME AND CREDIT



Sources: U. S. Department of Commerce and Board of Governors, Federal Reserve System. Data are for personal incomes.

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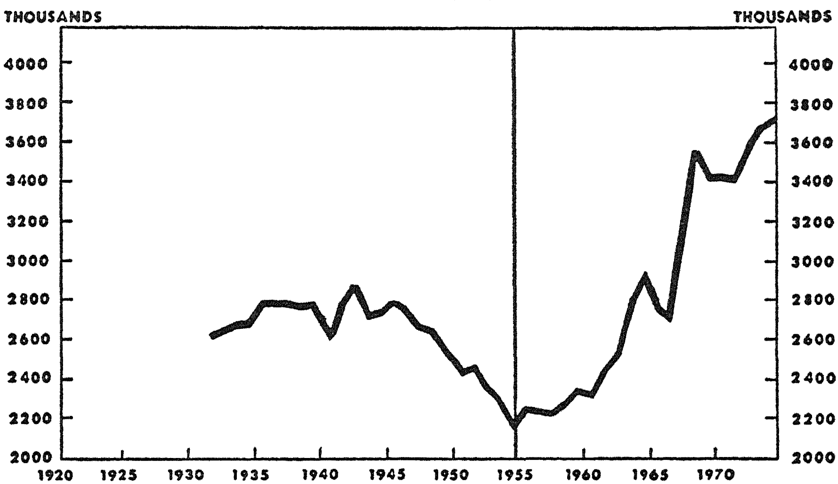
CHART 13
ANOTHER MARRIAGE BOOM WILL START IN A FEW YEARS
(Individuals reaching age of 22)



Source: U. S. Bureau of Census.

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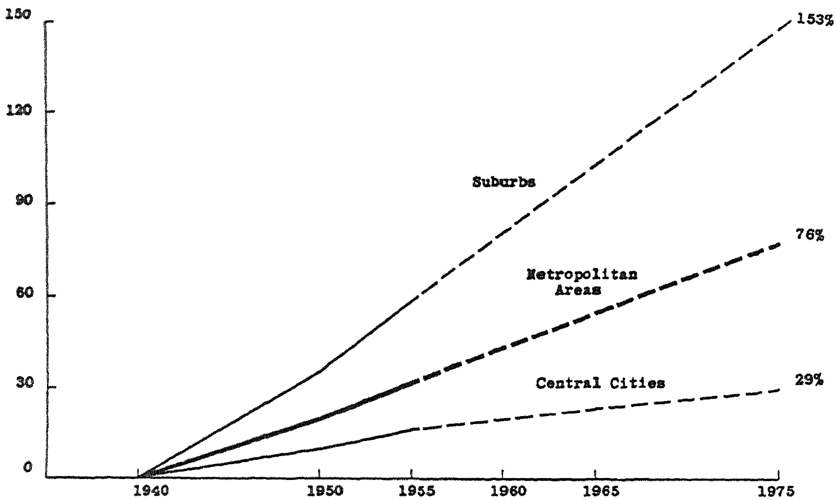
viduals who will reach age 22, a time at which we think they probably will be interested in matrimony. Here is the potential increase in the work force and also in family formation, showing a sharp increase in the '60s, though a small increase during the next five years.

Let us look at what some of these implications mean for the future. (Chart 14) At the same time that the population is increasing, it is also becoming more and more suburban. You will notice the very large increases we have in the population of the suburbs, the top line, and its projection in relation to the central cities. This situation has a very profound effect on the way of life in America.

CHART 14
SUBURBS LEAD EXPANSION OF LARGE METROPOLITAN AREAS



Source: Bureau of the Census and *Sales Management* Data for 24 metropolitan areas containing 32% of the population in 1955. Projections by economic studies.
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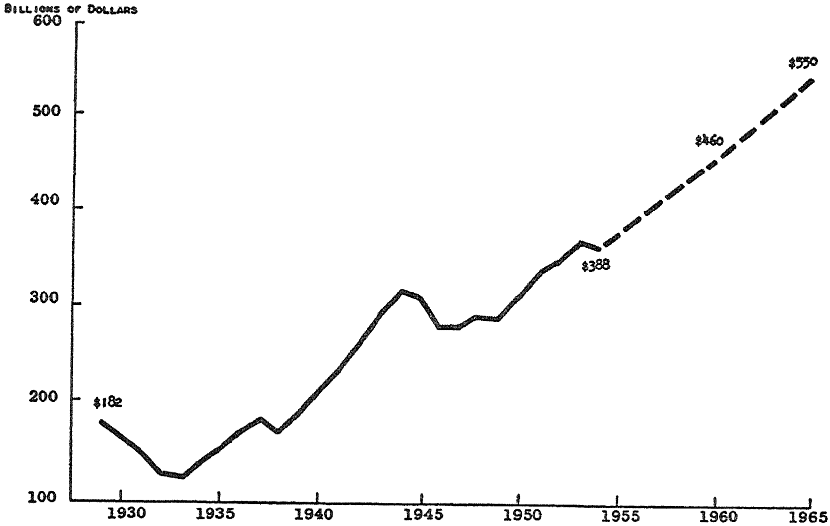
The two facts, the move toward the suburbs and the change in population, lead me to the following estimates on the national product. (Chart 15) Real gross national product is expected to increase about $160 billion by 1965, rising from $388 to $550 billion. This estimate is somewhat on the conservative side. It is based upon a modest increase in labor force, some reduction in hours, and a 3 per cent productivity factor.

Let us see what this implies in terms of expenditure for various items. (Chart 16) Consumption expenditure is expected to increase about $106 billion; private domestic investment will go up from $59 billion to $82 billion; government expenditure will increase from $76 billion to $110 billion. These estimates are based on ratios of change that have taken

CHART 15
REAL GROSS NATIONAL PRODUCT EXPECTED TO INCREASE BY $160 BILLION BY 1965
(In 1955 Prices)



Source: President's Council of Economic Advisors, 1929-55. Projections by Economic Studies.

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place in recent years, and perhaps some will argue that the government expenditures will not rise that much and should not rise that much. I take no issue in that case, but merely point out that these are the divisions based upon recent trends.

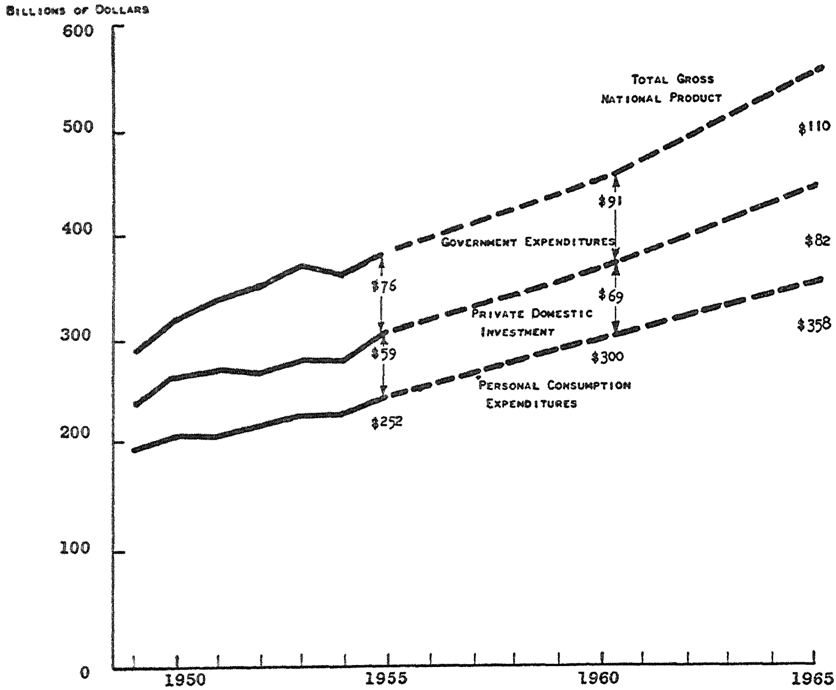
Chart 17 illustrates the change that is implied for income. Income will rise by about 40 per cent and go up to $430 billion, with an increase in savings and some increase in taxes.

Chart 18 shows what is implied as far as family distribution of income is concerned. Sixty per cent more families are likely to have an income of $5000 or more. Actually that 60 per cent applies to the change between 1955 and 1965 in terms of the number of families. It increases from 19 million spending units—these are really spending units rather than families—to 25 million by 1960, then 31 million by 1965. The families who have $5000 and more income are of particular interest to us and to those who manufacture durables, because they determine to a considerable extent the nature of the market for new durables. The higher incomes of course are particularly important in two-car-family ownership.

Chart 19 shows total ownership of cars by income. At the present time, 40 per cent of the families with incomes under $3000 have cars. The ownership rises very sharply over $5000; 88 per cent of families are

CHART 16

PERSONAL CONSUMPTION EXPENDITURES TO INCREASE ABOUT $106 BILLION BY 1965
(In 1955 Prices)



Source: President's Council of Economic Advisors, 1929-55. Projections by Economic Studies.

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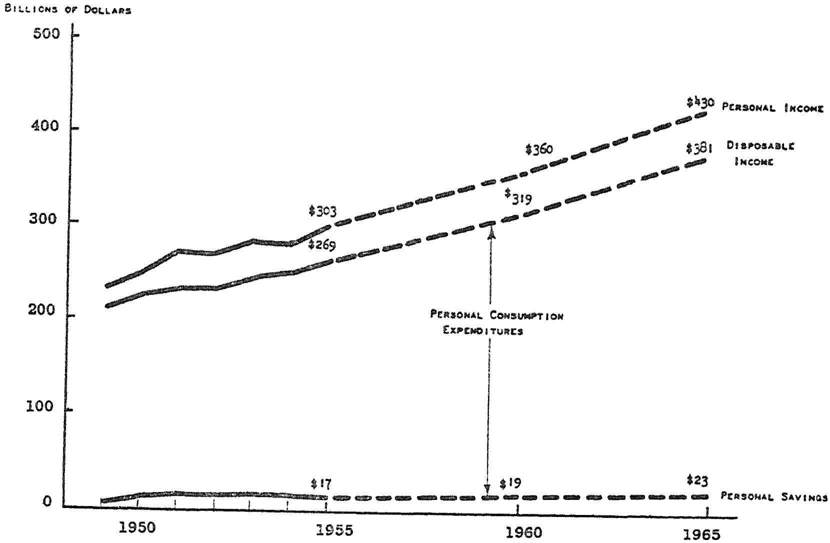
owners. The two-car families increase from 2 per cent to 16 per cent as income rises over the $5000 level.

Chart 20 estimates the number of families owning two cars. At present there are about 4.3 million spending units owning two cars. This should rise to approximately 7 million by 1960, and 10 million by 1965.

As to total outlay for durable goods, which is probably of more interest to you, the consumer outlay for durable goods is likely to rise about one-third by 1965. The new car outlay was around 12 million last year, more or less a peak year. We think probably 11 is more normal at this time without large credit stimulus. This will probably rise to 16 million. Total consumer expenditures we expect to rise from their level of around $34 or $35 billion now, up to $48 billion.

The increase in consumer credit extended is likely to parallel this fairly closely. (Chart 21) Here is a projection of the installment credit

CHART 17
DISPOSABLE INCOME TO RISE 40% BY 1965
(In 1955 Dollars)



Source: President's Council of Economic Advisors, 1929-55. Projections by Economic Studies.

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extended. It is likely to rise to about $48 billion by 1965, of which almost half would be automobile credit extensions.

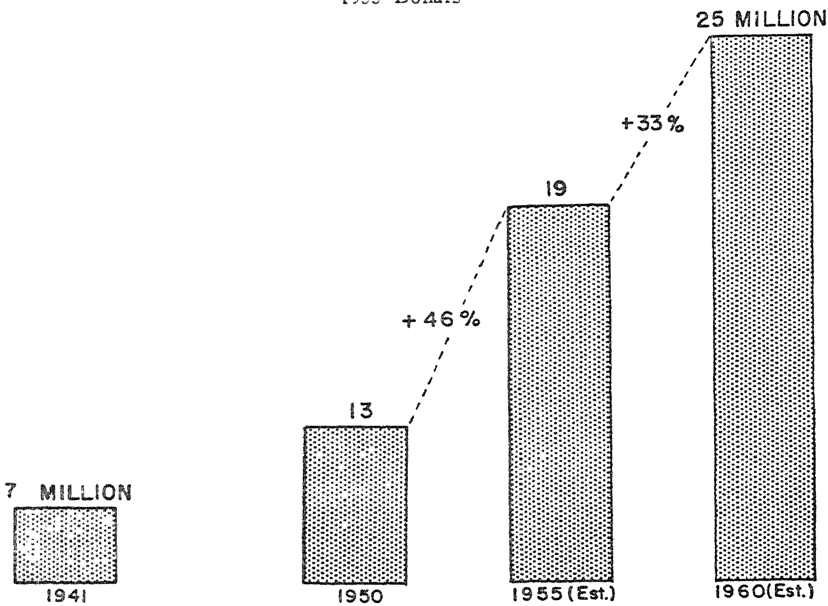
Let us see how this affects family debt in terms of the amount of installment debt outstanding by income groups. (Chart 22) The present distribution of debt is shown by the shaded bars. The white bar is what we expect will be the personal debt owed within income groups by 1965. The total outstandings would come to around $38 billion. You will see, and I think this is an important point, that as incomes advance debt moves into stronger and stronger hands. With rising income, more families will have $5000 income and over. The main increase in debt will be among families with incomes in the $5000-10,000 range, with less debt in the under-$5000 range.

I think this bodes very well for the future. I think it has vast implications as far as the extensions of credit are concerned. We have already seen that the present loans, on terms of about a fourth down and 36 months to pay, are adequately protected by the wholesale values of the cars purchased. In addition to collateral value protecting the loans, there will be also a stronger personal position behind each loan.

In Chart 23, I am trying to do the thing which your program chairman has implied, and that is to see what kind of standard of living this will

CHART 18
33% More Families to Have Income of $5000 and Over
Millions of Families*

1955 Dollars



*Families defined as independent spending units with at least $15 a week income.
Source: Economic Studies Estimates from Bureau of Labor Statistics and FRB Survey of Consumer Finances.

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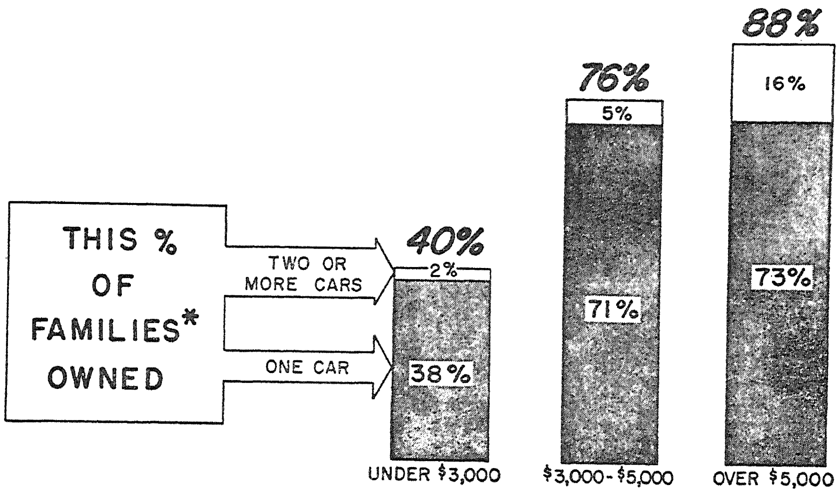
mean. Here we see the changes from prewar to postwar in the buying habits of the American families expressed more or less in economists' jargon; that is, the income elasticity of demand for various items. The chart shows the percentage change in spending which is coupled with a 1 per cent change in income. For instance: airline travel in the postwar period increased 2.7 for every 1 per cent increase in income, whereas prewar it increased 0.7 per cent with every 1 per cent increase in income.

It is interesting, in looking down the list, to note that the areas in which buying has been expanding are strongly centered about the home and travel. Airline travel and personal business head the list. Then comes housing, which I think is an indication of the suburbanization and the stronger centering of life about family affairs. There is a large increase in both foreign travel and automobile transportation. There is a very heartening increase, it seems to me, in the expenditures for education, religion, and welfare activities. More attention is paid to medical care.

CHART 19
CAR OWNERSHIP RISES SHARPLY WITH INCOMES



*Spending Units.
Source: Money Income before Taxes, Survey Research Center.

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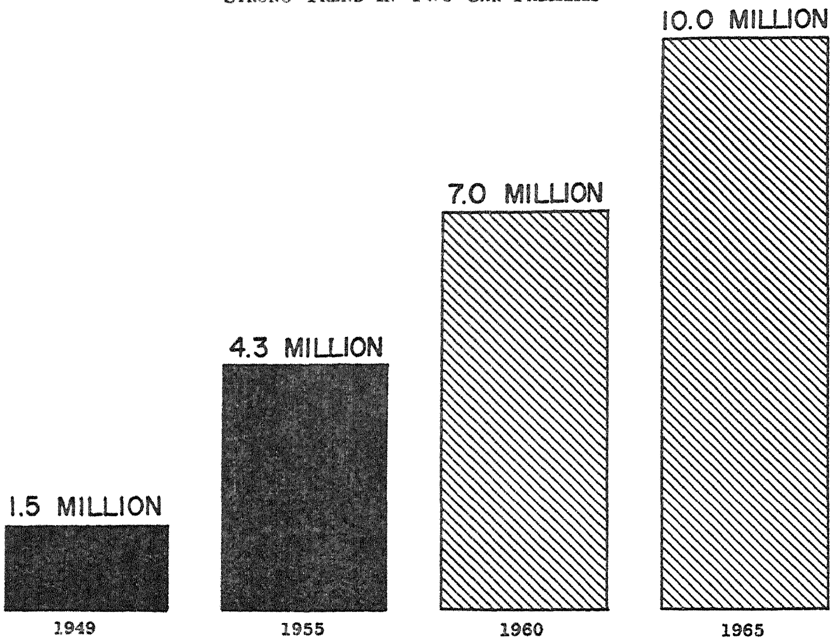
Towards the end of the list is a small but growing item, more attention paid to clubs.

It seems to me that here we have, in a way, the pattern of American life, especially if you look at it in relation to the next column where the buying is contracting. There is less expenditure than prewar, in relation to income expansion, on radio, television and musical instruments. Less is spent on food and less on the operation of the house. It surprised me to see sports equipment, including boats which I thought were booming, down. There is less interest in beauty care, jewelry and watches, less in clothing. Paid transportation is less; and of course, as you would expect, there is less spectator amusement.

In short, an urban population, living in concentrated metropolitan areas, tends to have its life center more about spectator amusements, about paid entertainment of various kinds, and perhaps things like radio and other instruments in the home; whereas a population moving away from the center of the city into the suburbs, with more space around them, more transportation available to them, tend to have their life center more about the home, about travel, and their social affairs in relation to clubs and social groups.

I am not enough of a forecaster to see how this pattern of living may change in the next ten years. I would expect the next ten years to see a strengthening of the trends which we see here: more expenditure on

CHART 20
STRONG TREND IN TWO CAR FAMILIES



Source: Survey Research Center, University of Michigan. Projections by Economic Studies Department.
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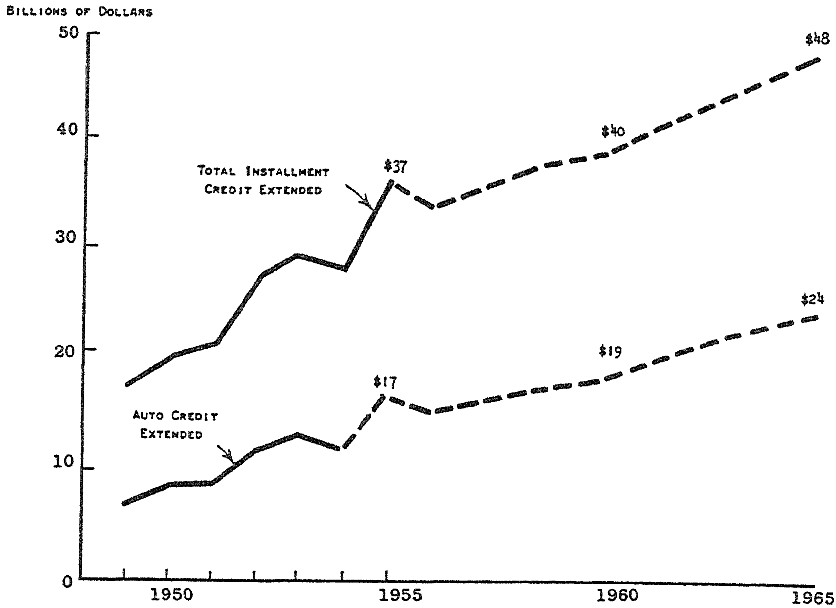
home, travel, the cultural and religious and educational aspects of life, and less on the items we have shown here of various kinds of paid entertainment and personal adornment. Life will be more casual in 1965 than it is now. I don't see any reason why we should deviate from this trend as long as the suburbanization continues. If this forecast into 1965 does not seem to be adequate, then I suggest that you stand by until 1965 arrives, which I propose to do myself.

Now for two short final points: first, the opportunity for growth in consumer credit. The opportunity for growth is related to the growth in the economy, which we have seen is going to be relatively large. To have consumer credit grow more rapidly than durable expenditures, there will have to be a further expansion in the secondary markets for durable goods. In other words, consumer credit bears some relationship to the collateral value of the material which you are lending against. To have more evidence of collateral value, we need better used-commodity markets in many lines than we have now. If that change does not take place, I think the expansion in consumer credit will be about in line with the changes in consumer durables I have shown here.

CHART 21
INSTALLMENT CREDIT EXTENDED TO RISE TO $48 BILLION BY 1965
(Actual Dollars)



Source: Federal Reserve Board. Projections by Economic Studies.

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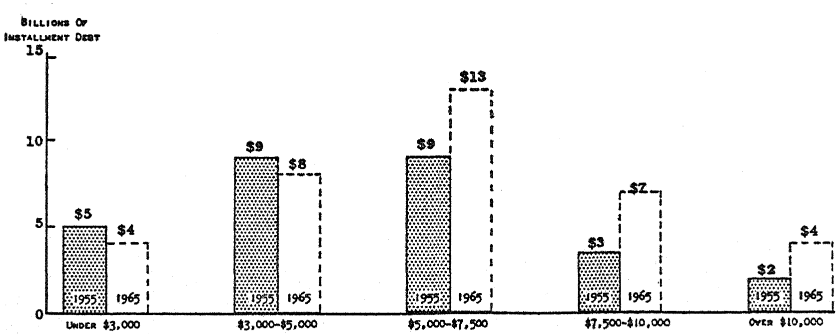
CHART 22
LARGE INCREASE IN TOTAL INSTALLMENT DEBT IN PROSPECT FOR 1965 FOR FAMILIES WITH $5,000–$10,000 INCOME



Source: Estimated by Economic Studies from FRB. Survey Research Center Data.

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CHART 23

CHANGING STANDARD OF LIVING CENTERS ABOUT HOME, TRAVEL, AND CULTURE

(Based on % changes in spending with a 1% change in income)

BUYING EXPANDING	Spending Rate		BUYING CONTRACTING	Spending Rate	
Item	Postwar	Prewar	Item	Postwar	Prewar
Airline travel	2.7%	.7%	Radio, TV, musical instruments	1.1%	2.5%
Personal business	1.6	.8	Food	.8	.9
Housing	1.5	.5	Household operation	.6	.9
Foreign travel	1.5	1.0	Sports equipment	.6	1.5
Auto transportation	1.4	1.2	Beauty care	.5	.8
Education	1.4	.6	Jewelry & watches	.3	1.8
Religious & welfare activity	1.0	.4	Clothing	.2	1.1
Medical care	1.0	.7	Rail, bus, streetcar	−.1	.9
Clubs	.7	.4	Spectator amusement	−.4	.8

Source: U. S. Department of Commerce

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Consumer credit in the future may also find an opportunity for growth by investing in people. In an economy where people want to travel, to broaden their experience, and to educate themselves, there is the opportunity to invest in people and in the development of their abilities, particularly with debt moving into the hands of people with higher incomes and a stronger credit standing.

My last point is a very quick rationale about consumer credit and its justification. In what I have read of consumer credit, most of the justification centers about economic factors, why credit is useful to the economy.

I think probably the strongest argument for the expansion of consumer credit is on other than economic grounds. I would put it simply on grounds of justice. There is, after all, a sort of life cycle in borrowing and saving. When families are young and growing, they are less able to pay for goods unless they borrow. Consumer credit is a civilized way of enabling everyone, the younger people and the less well off, to have a high standard of living in advance of the time that they can actually acquire the savings for that standard of living. In times past, young people often acquired their higher standard of living by fighting for it. It has taken us a long time to get away from youthful warriors who snatched what they wanted and, in the absence of consumer credit, got what they needed for their start in life.

To the extent to which we have an economy dedicated to rising standards of living, we are forced to justify the economy by how widely that standard of living is shared. Consumer credit, as I have said, is a civilized way of sharing the rise in living standards.

I may add about the proposed government study of consumer credit,

that consumer credit problems would benefit by the examination and attention of intelligent minds. I think the possibility of its control is rather remote at this time. Consumer credit is the people's credit. It is credit for all of the small borrowers in this country. In the long run it cannot be dealt with more severely than the extensions of credit to business and other groups. At the present time the great extensions are to business borrowers. It seems to me both unwise and improbable that we should deal more severely with the borrowing of consumers than with the borrowing of the businessmen. In other words, to the extent that borrowing is excessive at any time, it is unstabilizing.

That is as far as I can see toward 1965. Again I invite you to stay around for ten years and see if I am right.

Questions From the Floor

Chairman McCracken: We have had quite a tour through the current economy and extending all the way to 1965. I would like to raise one question here. Have you translated this into any rough estimate as to retail automobile sales for 1965?

Mr. Edmunds: Yes, I have.

Chairman McCracken: Any estimates you want to indicate? I noticed your dollar outlays were up about 48 per cent, weren't they?

Mr. Edmunds: Yes.

Chairman McCracken: From what you would call a par for the course. And you are assuming no major changes in price levels?

Mr. Edmunds: We are not assuming any major change in the price level, but we are assuming the increase in consumer outlay per car, that people will continue to want better and more cars. So we would expect the outlay per car to increase about 10 per cent. I think with those two percentages you could probably make your own guess as to what we think the volume is likely to be in 1965.

Question: I would like to ask Mr. Edmunds about installment credit division of the American Bankers Association chart which they got out the latter part of last year, which is contrary to your chart regarding the exposure on automobiles. The chart put out by the Bankers Association showed that exposure ran about 16 months to 36-month contracts at 25 per cent down. I was wondering how you arrived at your figures. I don't know how the Bankers Association arrived at theirs.

Mr. Edmunds: There would be two reasons, perhaps, why the charts would differ. I am not familiar with that one, but the previous charts that I have seen have tended to emphasize the gross time balance and not the net time balance. That might be one difference. If they took out unearned interest and unearned insurance, their chart, in terms of the amount exposed to risk, would be the same as ours.

The other difference might come from the calculation of the price for

an automobile. We have used two sources of information, which we keep up to date, that I do not believe are very widely used or published elsewhere. One is the extent of the price variation from the dealer-suggested price. In other words, what did this person actually pay for the car? Was his actual payment the suggested list price, or was it at the price of the dealer discount in a competitive market?

Ordinarily I suppose that would make our figure somewhat lower than theirs, because we are trying to use a realistic price, and unless they overestimate the amount of price variation, and the amount of the dealer discount, and have a price that is relatively low, our price would tend to give a more favorable impression.

The second factor involved here is whether or not they used an actual wholesale price over the period or an estimated depreciated price. This is the price on the used car market that you could have if you repossessed the car, took it out and sold it at auction.

I am not sure that this kind of data, which is available from published sources, is usually computed. The chart you speak of is probably based upon an estimated depreciation which may be higher than this one. However, this is realistic in terms of actually what the customer could buy it at, actually the terms he would get it on, and actually what the finance company or dealer would get by repossessing it. We think it is fairly solid.

CHAIRMAN McCRACKEN: You would interpret that also in terms of the point you made at the last, the extent to which the credit is safe depends not only on the relationship between the amount outstanding and the collateral value, but in terms of the whole financial situation with respect to the borrower; in other words, the shifting of the emphasis from collateral interest to personal interest?

MR. EDMUNDS: That is right. I think the collateralized lending is on a sound basis. I think as to the lending on personal income, that personal stature rises as income rises, and this lending also is becoming more and more sound.

IMPLICATIONS FOR BUSINESS

PANEL DISCUSSION

APPLIANCES AND FURNITURE

ALBERT HARING

The papers that have been presented have contributed much. In particular they have shown how the American family has changed. Professor Smock examined certain of the sociological phenomena; Dr. Lansing added some statistical information. In the actual operation of credit in home furnishings and the appliance field there are one or two things which would appear to warrant statement. The facts suggest that the current family is probably a better credit risk, even with the size of the outstandings about which some people worry, than was the case prewar or immediately after the war.

Two or three things have come up that seem to be pertinent. The difference may be largely psychological. However, we find that in the younger married people a vital factor in the quality of the credit is insurance coverage. A large part of their net worth may be in the cash value of insurance policies. The employer may have group insurance. Likewise, many of the features of retirement pass onto the family in case of death. Those assets, some measurable and some semi-intangible, create a confidence in the young people. We should add the Blue Cross and Blue Shield. They protect against emergencies which thirty years ago largely had to be absorbed by the individual family.

A second phase of that same thing in analyzing a credit risk is the fact that the young people, because of the existence of these things, do not have to look forward to the financial responsibility of their parents to the degree that existed previously. My one regret in Dr. Lansing's presentation was that there was no inclusion of the cash value of insurance policies and some cash value for retirement plans. I know the difficulties, but I believe that they, along with the current value of appliances and home furnishings, are vital in evaluating the debt position particularly of the younger family.

Actually in home furnishings and appliances we think of the shifted psychological attitude in a new way: These younger families are investing in durables rather than incurring debt to purchase. It is an investment in the standard of living. There is a tremendous growth of the economy, and a higher standard of living has developed. In the granting

of credit we have found that, unlike some of the other businesses where definite rules have been laid down, the independent furniture store or the independent appliance store which can finance its paper tends to select a risk it believes is sound, and, to a great extent, to let the customer set his or her terms. With taxes and other deductions taken out of income there isn't much left, but the customers commit themselves with confidence and they liquidate their investments adequately.

We have heard a lot about 1955. We have analyzed the figures of a good many furniture stores which are operating largely on this basis: "The risk is satisfactory, so what do you want to pay down?" Naturally we encourage a high down payment, so, that the customer will own the product as soon as possible. Down payments average approximately 14 per cent. The collection rate runs from 12 to 14 per cent each month, and 13 per cent is not a bad average. I can tell you of store after store that let the consumer virtually set the monthly payment. The bad debt losses were 0.57 of one per cent. Unlike some other industries, furniture goes from the highest income group to the lowest. The proportion of accounts as of December 31 that had made no payment in 60 days was 5.4 per cent, which we do not consider to be unsatisfactory. We would all like to have our accounts paid that promptly. We find that historically the furniture contract between 15 and 21 months will pay out on the average about three months longer than originally written for. There seems to be a tendency for that three-month differential, in that term bracket, to shrink a little rather than increase.

As a result of the changes that have been outlined to you and the experience that has occurred in this area of installment credit, we believe the consumer family is doing a pretty good job, and that as the expanding economy requires more credit, and possibly adaptations of terms, this too can be handled successfully. Actually we are rather proud of our record of the last five years.

SALES FINANCE

Richard E. Meier

I liked very much what Mr. Edmunds said this morning, everything he said, in fact, except his opening statement in which he accused us, who are operating people, of being over-optimistic in our ability to manipulate the borrower. After coming through 1955 as an operator I feel that we have been manipulated a little bit ourselves! Perhaps the present high inventory of new cars on hand at the mid-point in April will testify to that fact. Nevertheless, I am sure we will be able to help the dealers sell them.

I would also like to quarrel a little bit about his equity charts and loss exposure, which is not within the experience of my own company or of the companies I know anything about in the American Finance Conference. The factor that does not reconcile his chart with the national experience

of the companies I know anything about, is the repossessed automobile disposal loss, which is about $200 per car. I would also like to say that at the point of repossession the contracts usually are one, two, or three payments delinquent, so that unpaid balances pile up while market value diminishes.

I like this idea of using a "yankee-doodle" credit control machine, as suggested by Mr. Smock. I think we would like to have it take over for credit judgment we must presently exercise, so I hope it comes about very soon.

Those are perhaps a few facetious remarks. Now let's get to one or two of the implications, to a small operator, of what he has heard today. I am very sure that if what has been prognostigated today comes about, all of us, including finance companies, loan companies, and banks, are going to be hard put to it for the cash and the capital for the lending funds with which to under-pin this tremendous upsurge in our economy. I would remind you that for the last twelve months the money situation has been tight, even for those who enjoy the prime rates. We have had but token dips, less than normal seasonal dips in the money situation in the last twelve months. It seems to me that something is going to have to give if we are to find the capital funds with which to meet the greater volume of our economic activity.

I was happy to hear Mr. Edmunds say he did not believe we would have any government control of consumer credit. We in our industry for the most part feel that same way about it. I think it would be in the best interest of the economy if we could escape that. I think, however, one of the implications in what he has said and predicted, in all segments of the activity, is that we as operators, including all the financial institutions, will have to do a better policing job than we have done, particularly in the last two or three years. And perhaps the recent trend toward legislation to cover the sales finance business at the state level will be accelerated and will be more nearly normal in all of our commonwealths.

It may be that with the tremendous broadening of the middle class of people, even to the elimination, almost, of poverty at the one end and extreme wealth at the other, those institutions that serve the consumer credit requirements of the nation will find themselves greatly modified in their makeup. I say this once in a while to the people of our industry, but they don't like it: We may be modifying ourselves entirely out of business as such. On the other hand it may also be that there will be a reversal in the trend that has taken place since World War II; the banks, in order to meet the capital requirements of our growing and accelerating economy, may have to divert some of the funds now used to extend their consumer credit portfolios to those basic requirements, looking to the specialized institutions to handle an increased portion of the total consumer requirements in this field.

It is also apparent that the collateral security, the intrinsic market value

of the article pledged, with an expanding responsible middle-class, fades into relative insignificance as a factor for ensuring liquidation of the debt. I have said this, too: That it is possible to run a finance company successfully without taking a down payment, without prescribing maximum length of terms, and even perhaps without taking any physical evidence of indebtedness. That is very extreme, but I think it is possible. I think it is possible because consumer credit has built into the warp and woof of the character of our American people a tremendous respect for their pledged word. In no other nation in the world have the citizens such a high regard for their credit. It very much belongs as an intangible asset on the balance sheet of our consumers.

MAIL ORDER

IRWIN E. JOSEPH

As I was listening to these splendid papers today, I fully realized that I am not an economist, and I know that in this subject there are many important and difficult problems that need the attention of the very best economists that we have in this country. I think we are getting that. My discussion will therefore reflect a merchandising viewpoint. More particularly I am going to have to talk about Sears Roebuck and Company, because that is the company I know best, and the company with which I have had many years of experience in the credit department.

The program lists my subject as mail order. Mail order is a very important part of our business, but I think many of you know that we are also in the retail business. For the benefit of those who do not know, we have today 707 retail stores throughout the country, 11 mail order plants, and 694 catalog sales offices that are offering installment credit to our customers. We have extended credit at Sears since 1911. We have a great deal of experience in it, and I shall be happy to try to answer any questions you might have in regard to that experience.

To touch briefly on some of the talks, Mr. Smock spoke this morning of the American family. We at Sears have a great respect for the integrity of the American family. It is, of course, the backbone of our business. There is a great deal of concern today about the tremendous amount of debt outstanding. We can see from our records that installment sales have steadily increased. Just to give you a few figures, they increased from 4.7 per cent of our total volume in 1928 to 26.4 per cent in 1941. Last year, 1955, our company listed sales of $3,300,000,000. Installment sales amounted to 41 per cent of that volume. So you can see that credit is a very important part of our business.

I think we are fortunate at Sears in that we have trained credit managers in every one of our retail stores, in every mail order plant, and even in practically all of our order offices. We do set definite policies which our credit managers and their respective organizations are expected to

follow. I believe I can say we have a great degree of uniformity in the enforcement of what we consider our sound credit policy.

With the steady growth in our credit business we can say that our liquidation experience has steadily improved. And from my experience, I think it is far more important in evaluating the soundness of the amount outstanding nationally to give consideration to liquidation experience rather than to the increase in extension of credit. All of our cost figures, all of our experience, are based on liquidation rather than sales. The extension of new credit sales is, of course, necessary in order to increase liquidations, but I do believe that our economists should begin giving more consideration to the amount liquidated rather than to the amount extended. Customers are paying their obligations very satisfactorily, better than ever before. That is not only true today, it has been true for the last ten years. I think it is time to start giving more consideration and a little credit to the consumer for the very successful manner in which he has managed his financial affairs and liquidated his accounts.

Financing is important. We have been fortunate there also in that we have been successful in making arrangements with banks throughout this country who are interested in purchasing Sears installment paper. It was eighteen years ago that we first initiated a plan whereby banks agreed to purchase our installment paper, leaving the accounts with us to service with the customer. As far as our relationship with the customer is concerned, it is just the same as if we had not sold the paper to the bank. That has been beneficial to us in our tremendous expansion throughout the country. Today we have over 200 banks throughout the country who are buying Sears installment paper. We welcome their inspections. We are glad to have them come in and look over our books. We are glad to have their criticisms or suggestions. Our experience has been very satisfactory.

Basically I think the secret of the success we have had in our credit department, has been that the thoroughly trained credit manager in each store has the responsibility and authority to exercise good credit judgment. To me there is nothing more important than the quality of the credit. I think a great deal of concern today is due to the fact that there is apprehension about the amount extended to borderline credit risks, and the poor credit practices in effect in some instances. You understand that, I believe, better than I do. I think the company that does a good, sound credit business, that is willing to have the courage to turn down business that is not sound, does not have a great deal to be concerned about. To me, the quality of credit seems a great deal more important at this time than the quantity.

So far as we in the credit department at Sears are concerned, we must leave the question of the effect of tremendous increases to the economists to figure out. We in the credit department know from our experience that if we put the right kind of accounts on the books, with the right kind of customers, we can collect them.

CASH LENDING

J. Edwin Cronander

You all received this National Conference Consumer Credit chart from Mr. Jeffrey. You will note in there that as of December 31, 1955, the total installment credit outstanding was $27,895,000,000, of which commercial banks had $10,348,000,000, or 37 per cent. The personal loans, or so-called cash loans, total $5,500,000,000, of which the banks had less than $28 billion, or 29 per cent, while they had 77 per cent of the home improvement loans and 35 per cent of the automobile purchase loans. You can see that other financial institutions who have 56 per cent of the so-called cash loans have done a much better job on cash loaning than we have, and they should be the ones to speak on the future of this phase of consumer credit. Even in our own shop we only have 5 per cent of our total outstanding loans in cash loans. By cash loans we mean—and they also mean in the figures here—loans made to consolidate debt: medical expense, furniture and appliances, home repairs, taxes, insurance, car repairs, education, clothing, and vacations.

The few comments I have to make here will represent my own viewpoint and what I think will happen in the future. The first comment refers to a tremendous change in the great future we have in cash lending and the responsibility which comes with it. The second one was mentioned before, available money to loan out.

The first needs no explanation, because with more families we have more problems, and we will have more reasons for making loans. With this greater volume, our responsibilities will become proportionately greater. It will be up to us to control our policies on credit and maturities so as not to bring governmental controls, which we certainly do not want, and still be able to do a good job for our communities. Competition will also become keener, and as it does it will be necessary for us to find cheaper ways of operating. Possibly this will involve keeping abreast of the electronic developments in machines which will handle our work cheaper and quicker.

The second point is this: "Will money be available to loan out in cash loans?" Last Friday's *Wall Street Journal* (April 13, 1956) was referred to before. It said the cost of borrowed money is on the rise. Higher borrowing costs are sure to have widespread effects, and consumer loans may become more expensive and more difficult to obtain.

Cash lenders' interest rates are controlled by law, and in most cases we must charge the top permissible interest rates in order to show a reasonable profit. With the increase in the cost of money, are our banks and finance companies—talking now about the finance companies who make commercial loans—going to place these funds in cash loans, or in other types of consumer credit, or in commercial loans on which they will have a better return?

With the rapid growth of consumer credit, many banks, on the basis of their capital and other assets, feel it prudent not to increase their outstandings in this type of loan, and are able to loan only what they are liquidating each day on their outstandings.

Finance companies for some time now have found it necessary to go to other sources outside of the banks. Should the trend continue, we cash lenders may find ourselves at other types of lending unless we reduce our operating costs, or are allowed an increase in rates.

I don't want to seem pessimistic because I do not think a pessimist has any place in this business of ours, but those are just a few of the things that I think ought to be brought to your attention.

CREDIT UNIONS

IRETT FERRIS

I was somewhat concerned in coming to a meeting of this kind, since I had not had the privilege of attending such a meeting before. I thought I might not be strictly at home with everyone who is here. I was also concerned about your acceptance of credit unions in that they are sometimes considered the foundling baby of this credit economy. I wondered if I might be representing the country cousins of the consumer credit movement. However, all of those concerns have vanished since I have been here among these fine and jovial people.

We have in the credit union situation a need for definition. I have very seldom come before any group that has not required some knowledge of what a credit union is. I may be out of place with a credit union definition in such a group as this, but I think I will begin there anyway, assuming that you should know.

Its purposes are, first, to encourage thrift through an easy and convenient system for accumulating savings. That is sometimes done through a payroll deduction plan within the plant in which the credit union members operate. The second purpose is to provide a source of credit at normal rates of interest. This was one of the reasons for the organization of the credit union in the first place. Some thirty odd years ago the lending rates in Michigan and elsewhere throughout the United States were pretty much out of line as compared with those of the last few years.

The third purpose, taken directly from Roy F. Bergengren, one of the founders of the credit union movement, is "to be a school wherein the members are educated in the management and control of their own money."

We come then to the question of what a credit union family is. We feel that the credit union family is a unit of operation. Membership in the credit union is limited to those people who have a common bond. In the Detroit Teachers Credit Union it is necessary that you be an educational employe in the Detroit school system, receiving pay from the Board

of Education. Some credit unions provide that members of the immediate families of a credit union member may become members also. We do not have that provision, so our membership is extremely limited within the common bond of educational service. The credit union family, then, is the unit of operation for the practices of thrift and the cultivation of habits of saving.

Again, the credit union family is the potential for credit, which provides, as many speakers have said, the good things of life now, and the paying for them later.

Also, the credit union family is the base for the first lessons in cooperation and education in the management and control of money. I have heard several of you say that you find, in your own individual lives, that cooperation with your family is the first secret to financial success, as far as the management of your own personal finances is concerned.

Something was said to me just before I stepped up here, which I would like to quote: "The credit union is the American family, joined together in groups with a common bond, for the purposes for which the credit union is founded." I think you can take some stock in that quotation and perhaps find in it the definition of a credit union.

Now, what are the implications for business? First, I feel that the credit union character loan is providing many families with a new source for credit and confidence in the use of such credit. I should comment that 99.8 per cent of these loans have been repaid in accordance with the terms of the contract. Some credit unions have had even better experience. My own credit union has collected all but 0.1 of the $85 million which we have loaned out.

Second, the credit unions' encouragement of thrift has provided the nation with $2,500,000,000 of savings for loans and investments. Approximately 94 per cent of the credit union members have never had any kind of savings account prior to their membership in a credit union. This same 94 per cent has never had any other kind of savings account except their savings account in the credit union.

That percentage, then, small as it is in the total economy, still is a savings which has heretofore not been encouraged among those people who are now members of our credit unions. By the way, about one-tenth of the total credit union savings is right here in Michigan.

Third, the most common loan made by members of the Detroit Teachers Credit Union is for the purpose of purchasing a new home. Another very common loan is for home modernization and home furnishings. We do have the other types of loans, such as the automobile loan, which is common enough and probably could be gotten from other sources. Then there are the loans for travel and education, as has been emphasized here, and for the other good things of life.

Fourth, the credit union has provided rehabilitation for fringe members of the economy. As the first speaker of the morning indicated, some 4

per cent of the people owe as much as they own, and some 11 per cent of the people owe more than they own. It is with that fringe of the economy that credit unions have dealt very successfully within the common bond of their organization, and credit unions have been able to rehabilitate, and be the family doctor of finance for, those particular families and put them on a sound and solvent basis, thereby reducing the necessity for welfare benefits and social aid.

Finally, I think the credit union has this one connotation for the economy: The credit union practice of loaning to its own members from its own members' savings will probably never upset the national economy. It will probably always be a stable influence. It is based upon faith which, quoted from Lewis L. Strauss, Chairman of the U. S. Atomic Energy Commission, is this:

> "All of us are here today alive because at the many junctures in the history of our forefathers, undismayed by the particular fears which haunted their times, they took courage from faith and transmitted faith down through succeeding generations to us. Only faith is truly and invincibly strong and viable."

Such a faith is ours today in the Credit Union family.

CONSUMER FINANCE

Ernst Dauer

It might be well for me, as the last speaker, to point out that consumer credit falls logically into three groups: convenience credit, taking the form of charge accounts covering goods and services; installment credit for the purchase of durable goods; and installment loans for purposes other than the purchase of goods and services.

Mr. Cronander pointed out that the last group, accounting for $5.5 billion at the present time of the total $33 billion, is a relatively small proportion. Consumer finance companies operating under small loan laws are almost exclusively in the last group; namely, that group making loans of the personal installment cash loan category, particularly in view of the limitations on the size of loans under small loan laws. Such loans are needed by the average American family to meet two types of financial problems: The need to consolidate debt arising through interruption of income or from other causes, and the need to make unexpected large outlays. Under the latter we would include those instances in which loans are made to get cash, to go out and buy some goods more cheaply than they can be financed through other sources.

There was a time when the entire consumer credit business was limited to loans for purposes other than the purchase of durable goods. Those purposes were considered so vital in our economy that the credit union laws and the small loan laws were passed, beginning some 45 years ago. Both credit unions and consumer finance companies came into existence

to meet that need. On the basis of the talks that we have heard earlier today, I think we can reach the conclusion that there will continue to be a need for such services, and that they will be just as important in the future as they are now. It has been pointed out that our gross national product will continue to rise, that our American scale of living will continue to rise in the years to come, that American families will acquire an increasing amount of durable goods and benefits from the services flowing from those goods.

It was not emphasized that the more they have of such durable goods the easier it will be for them to postpone the purchase of additional goods. In other words, the higher the scale of living of a nation, the greater the vulnerability of the economy, the greater the potential instability in the economy, and the greater the potential instability in the sales of any particular product, automobiles, or durable goods in general. With such instability we will have a continuation of business cycles. Some individual companies and some industries will find it necessary, from time to time, to tighten their belts, as the automobile companies are tightening their belts a little bit at the present time. With a curtailment of production, adjusting it to consumer demand, there will be interruptions in income through layoffs, there will also be movement to other jobs, strikes and illness, which will bring a continued need for personal installment cash loans.

However, I think it is also possible to look in the crystal ball and see that demand for personal installment cash loans will not necessarily grow at a constant rate over this next ten-year period. Census figures show that there will be practically no increase in the number of people in the working age groups, which use the services of our industry the most, in the next five years. The number of those in the age group 25 to 45, if you want to use that group, or between the ages of 20 and 55, will show no increase in the next five years.

The increase will come in the youngsters and the oldsters, and it will be only after the next five years that we will have anything that would resemble a significant increase in the number of people in the working group. That will have an effect upon the demand for personal installment cash loans. On the other hand, the income per worker will probably increase more regularly throughout the next 10 years, corresponding roughly to the increase in output per worker. Over the next 10 years that would be probably in the neighborhood of 20 to 30 per cent.

The typical personal loan equals about one month's income. Hence the average size of a loan will have to move up, if the consumer finance companies operating under small loan laws are to continue to serve the same general segment of the population. As many of you know, the ceilings in small loan laws were written into the laws 30 and 40 years ago and many are still the same as they were then. Something will have to give if we are to continue to serve the same segment of the population.

One other thing that could be pointed out with respect to our industry is that increased income per worker will obviously mean higher salary expense within our industry. Possibly automation will be part of the answer, but I think it is still going to be necessary for trained people to appraise each application to determine whether or not that loan is in the interest of the borrower.

Questions From the Floor

Mr. Christian: I would like to ask Mr. Joseph a question about the high percentage, as it seems to me, of installment sales in the Sears Roebuck organization. It seems to me it is a much higher percentage than a general department store would have. Is that true?

Mr. Joseph: That is definitely true. I think it is well to mention that Sears do not generally have charge accounts. Our credit business is restricted almost entirely to installment business. We have recently embarked upon a revolving charge plan, which you are all familiar with I am sure. But we do not have charge accounts. I think that is one of the reasons why we get a much higher proportion of the installment business.

Mr. Christian: That was going to be my next question. Why would you have such a high percentage? Do you think it is because of carrying no charge accounts, and that anybody who would want to charge puts it on an installment basis?

Mr. Joseph: I think that is one principal reason. I believe there are many people who would like a charge account who will come into Sears and buy on our installment account. Many of them will pay up in full within a reasonable period of time, so that we have a continuous turnover of our accounts.

I think, too, there is another very important point in that our company has been very fortunate in developing some very fine durable merchandise or appliance items. I think that has attracted a great deal of what we call big ticket merchandise buying, which is generally done on the installment plan.

Professor Blake: Mr. Joseph, do you consider the revolving plan your company is instituting now as part of the installment, or is that a different type of plan?

Mr. Joseph: Today we are considering it as a short-term credit account. I have included the revolving charge in the percentage figure I gave you for the installment business. But to correct that in keeping with our thinking, let us say 37 per cent is installment business such as we have known before, and the other 4 per cent represents revolving charge, which is relatively new. However, we are reporting it as a short-term account today.

Professor Blake: Is there any tendency to shift on installment?

Mr. Joseph: There is definitely a tendency to shift from installment to revolving charge, particularly for soft-line merchandise. The period of time we allow is much shorter. Our maximum on revolving charge is six months. Consequently the principal conversion represents soft lines, or wearing apparel.

Question: Dr. Dauer made reference to the inherent instability in the high durable goods economy. What is the relation of that to the use of consumer credit, the degree of instability? Is there any relationship?

Dr. Dauer: The instability results from the fact that there is an accumulation of durable goods in the hands of those who can postpone purchase. That is true of consumers, and it is true of businessmen as well. It is a fact that the consumer has a car which he could use for another year or two if he wanted to, or a lot of other durable goods that are still serviceable, still satisfactory, and he could use them. He will trade them in and buy a new car or a new piece of durable goods of some other sort if the merchandiser persuades him that the new product is so much better that he should do so. However, in the absence of such persuasion there is no reason why we could not keep on using the durable goods we now have for a considerable period of time.

It is the fact of the accumulation of the durable goods which brings about the instability. That is equally true in the field of business where firms have accumulated a large amount of plant and manufacturing equipment. They could postpone replacing that with new, better equipment.

The fact that those things are purchased on consumer credit is incidental to the fact of the instability. I think it is fair to say that the ability to buy on credit, consumer or any other kind of credit, makes it possible to make a substantial purchase at one time which might otherwise have to be postponed. If enough people decide all at once to make purchases and utilize credit, you do have a degree of potential instability introduced by the credit, but that would be equally true if you were using credit for the purpose of stocks and bonds or anything else. I think we have to separate, in thinking about it, the degree of instability brought in through the use of credit and the degree of instability which results from a high-level economy. They are different.

Question: Would you limit this instability implication to a replacement market, or do you think it might be affected by the new family formation, for example, seeking to build up an inventory of durable goods?

Dr. Dauer: Definitely the new family which came into existence in the early '30s postponed the accumulation of family fixed assets, as contrasted with the family coming into existence in the early '50s which acquired those fixed assets very rapidly, as Dr. Smock pointed out. But there it is a case of doing without rather than the fact of an accumulation affecting the action. Is that what you were after?

Question: I was wondering if you were anticipating replacement,

which would become a more important segment of total demand, and therefore that instability would creep in.

DR. DAUER: Of course it is entirely possible that over a period of time we will expand our area of the things which we want to put into the home. Dr. Lansing I know is acquainted with the figures which Miss Eva Mueller, his associate, presented at the Consumers' Behavior meeting here last September. It is my recollection that her figures from the Survey Research Center study indicate that, with respect to what might be called the newer family durables, there is a strong desire to get those as soon as possible. That was true throughout all of the income groups, among the spending units. However, those who now have the newer durables are limited to the upper income groups for the most part.

If we followed on that thought it would seem to indicate that ten years from now the average American family will be just as anxious to get a deep freeze and other newer types of durables as the family has been to get the older types of durables in recent years.

DR. LANSING: That is quite right. That data you referred to did suggest that once people have the so-called older durables, the washing machine and so on, they do become interested in the newer items such as air conditioners and deep freezes. They don't just retire from the market.

DR. SELBY: It is so rare that you have a panel of this kind representing family interest—the observing research man, the economist, the retailer, sales finance, and cash lending operator—that I would like to ask the panel to consider this question: Is it necessary and is it desirable that the use of consumer credit be increased in the next decade, or is it desirable that instead of letting it run a free course some artificial restraints be imposed on it? What is the place of consumer credit in this mass production, distribution, consumption system of ours? It is necessary that it go up, and if so, why? How much? It is desirable that it do so?

PROFESSOR HARING: Some of the new items in our standard of living are inexpensive, such as frozen foods or improved synthetic fabrics. However, a larger proportion of the new items are more like air-conditioners, which the ordinary family cannot buy conveniently out of one or two pay checks.

There is every indication that these more expensive items will be a larger proportion of the additions to our standard than has been true in the past. For those items to move into the standard of living will require a greater use of credit.

In the second place, we have divided disposable income into that which goes for the formal necessities and that which the user has a right to spend as he wishes (discretionary income). If the wage rates and productivity increases develop as they have in the last decade, this discretionary portion will be a bigger proportion of income. When people

utilize discretionary income they tend to select a great many things previously impossible for them: these again are big-ticket items and require the use of credit.

A woman has had an interest in art. She decides to take some art courses, take a trip to visit art galleries. Or individuals decide they want to do some improvement on their homes. The individual has a tremendous opportunity there, and the utilization of that part of the income seems to tend towards items which cannot be handled easily in one package. What people need is more than the current pay check can stand.

Mr. Edmunds: It seems to me this question implies taking our discussion from the more or less mundane level of money to the more or less philosophical. The question is whether this is desirable and whether it is necessary. The implication is that perhaps it is undesirable and unnecessary.

You have to judge this against what your aspiration for the economy is, or for families. I would say it is possible that we can conceive of it as being unnecessary, if you wish also to conceive of an economy which is predominantly thrift-minded, which is predominantly in all its segments—uniformly I mean now—dedicated to less advance in its standard of living than was true in the past.

I don't know whether this is the kind of economy we are seeking or not. It is not the kind of economy written up in the Employment bill of 1946. It is not what we usually state as our idea in talking about an advancing standard of living.

It is fully possible that all of us should spend less time making money and buying durable goods and more time meditating upon the eternal things of life. I try to do that myself once in a while, but I seldom snatch more than five minutes for it. I am not very deep into the eternities yet.

I think that is about the only context in which we would conclude that this expansion is unnecessary and undesirable. Certainly you would not conclude that just because one feels that thrift is basically a better attribute than indebtedness. This is the point I tried to reach in saying there is a time in life for borrowing and a time in life for saving.

When you have an economy which has young families in it, the families have the facility for attaining a high standard of living, which we say is their aspiration, only if we help them in the interim until they too become savers, which they ultimately will as their children become older. Then they provide the savings for another generation.

It is this cycle of some people saving while others go into debt which seems to me to be a fact you do not label as good or bad or desirable or undesirable. It is a way of doing things, which I tried to indicate was a way of sharing the standard of living with all people, whether they are young or old or well off or less well off.

Mr. E. A. Heath: This discussion is becoming particularly interesting

to me. I wonder if we could pull just two points together here. I would like to get the reaction of the panel to this: Certainly the American consuming public will not be satisfied with a lower standard of living. I think we could answer that question that way. There will be a rise in the standard of living.

I think all of us have assumed, and certainly the speakers, that that change in the standard of living will result in an increase in the number of durables used by various family units. I am wondering if it is possible that an increase in the standard of living might not result in a decided decrease in the number of durables purchased by family units? For instance, disposable clothing, food prepared in disposable containers which will eliminate dish washing, and so on. Our standard of living has been moving toward the elimination of personal effort. Could it be that that will result in less use of consumer credit at some future time?

MR. JOSEPH: I would like to make one brief comment there. I cannot answer this particular question, but it does seem to me that we might look at the experience over the last ten years. Perhaps there is some indication of what might happen in the next ten years.

I know that trees don't grow to the sky, and perhaps some day there has to be a limit. I don't know what that limit is. But if we look back at what has occurred over the last ten years, with the tremendous increase in consumer credit, what have we accomplished? People are living better today. Incomes are better today. More people own their homes.

If we can expect that that might continue in the next ten years, it seems to me it might be a good thing. I don't know what the top is, but it is certainly my opinion that we will continue to extend more and more credit to people, provided the disposable income and discretionary income Dr. Haring mentions continued to improve.

MR. ROLFE: This is primarily addressed to Mr. Edmunds, and generally to the whole panel. It seems to me one of the things lacking in discussions of consumer credit so often, but present in this discussion which makes this interesting, is some concession of social objectives. What is the purpose of the whole operation? Is it good or bad in terms of some express purpose?

Mr. Edmunds in his talk mentioned the pending study with respect to controls of consumer credit. It seems to me the thing that is basically lacking in public discussion of control or no control is the question of the objectives to be obtained by control.

Mr. Edmunds mentioned one. I don't know if he regarded this as a direct objective when he talked about the rising bank credit—by which I take it that you mean it would be iniquitous to control one sector without another, but at the same time there is a problem of controlling all inflationary credit forces.

However, it seems to me there must be a series of objectives which people wish to attain through control, which should somehow be delineated.

If these objectives were made explicit we would see whether they are in a sense good or bad by evaluating them in somewhat rational terms.

Just to continue one moment, I believe the quest for control of consumer credit is actually a quest for control of the rate of the output of durable goods, particularly automobile goods. Therefore I turn the question back to Mr. Edmunds.

Mr. Edmunds: I think it is very likely that control of consumer installment credit would result in substantial control of the rate of automobile output. I don't know that I have been in the automobile business long enough to decide whether the government would reach a more equitable balance between production and consumption than the automobile managers do. Even if I did not have considerable faith in automobile managers, I have considerably more faith in consumers themselves as their own regulators in the economy. After all, they have shown considerable prudence in keeping their monthly payments relatively in line with their income. Probably they can decide better than either we in the automobile business or the government in Washington how much should be lent to them.

I would like to endorse heartily the idea you put forward in the other part of your question, that we have never perhaps set down as succinctly and clearly as we might the objectives of consumer credit. I think we would do well perhaps to get some historians to begin thinking with us in this line. I am quite impressed in reading economic history that advances in an economy and also in a society and its culture seem to be made when people have some aspiration for progress; that is, when they believe they themselves will achieve some progress in the future. In some societies that progress has not been thought to be durable goods; it has been the absence of goods, in fact. At any rate, they have hoped for progress.

In this economy we happen to have come to the point of view that durable goods, which in large measure serve us and save our time so that we can spend less time in getting places, indicate progress. We can travel more, we can get to work faster, we can spend less time in the kitchen, we can spend less time keeping a house up. These things relieve our time for more important pursuits, which I tried to indicate in the charts to the extent that I could discern them: higher education, more time and money spent on religious purposes, more time and money spent on travel. These things seem to me to be developing activities as far as individuals are concerned.

I think it would be much to the point for a group of scholars and practitioners interested in consumer credit to identify these ideals. This might be the most persuasive kind of material that could be submitted in the forthcoming examination of consumer credit.

Professor Woodworth: I want to raise a question about the comments of the panel. They all seem to be of a long-run nature. This is a philosophical question. Mr. Edmunds in his graphs to 1965 showed a rather

smooth upward trend, without much indication of boom-and-bust situations that we have historically experienced.

Then I believe there were comments along the line that even though the proportion of consumer debt to disposable income is 14 per cent and has never been higher than 11 per cent previously, that still there is nothing to worry about. So it seems to me the issue raised earlier, that the problem before us is a matter of control, is possibly one that centers on the boom-and-bust problem almost more than the long-range upward trend. If everything moves along smoothly I don't think we need to worry.

If we do need controls by policing action of the lending agencies themselves—which I would like to see, if it has to be done, rather than government controls—those controls largely would be pointed toward preventing too great a boom which would later on possibly cause a reaction.

I believe Dr. Dauer called our attention to the fact that the great growth of durable goods in the economy held by consumers, and also by business, does add an element of vulnerability to decline that must be faced from the standpoint of cyclical control.

So while these liquidations are coming along nicely and the losses are rather minor at the present time and in hand, we cannot always look at these things in terms of what the income is now or on the assumption that it is just going to move along at three per cent a year upward. We probably ought to think of the issue realistically in terms of whether we have licked the business cycle. Can we move along on this trend rather smoothly? How narrowly have we narrowed the tolerances of the business cycle?

I would like to hear that discussed because it seems to me that is part of the question.

DR. DAUER: Obviously we have not eliminated the business cycle. Dr. Arthur Burns, Chairman of the President's Council of Economic Advisors, is on record as having said that. But I think he also is on record as having said that we have certain built-in stabilizers that he thinks may minimize the degree of fluctuation in our economy. But whether or not it is desirable to minimize and to what degree is, I think, a question that has to be weighed against the cost of providing a greater degree of stability. If that takes the form of a very much increased degree of regulation which could slow up the rate of growth very materially, then I certainly wonder whether the increased stability would be worth that cost.

In the words of the poet, there is nothing either good or bad, but thinking makes it so.

DR. LANSING: I would like to come at this from a slightly different angle, which involves not necessarily the credit industry. I think there is a broad social objective in improving the net worth position, particularly of some of the older people and the lower occupation groups. I am thinking of the unskilled and service workers, for example, and the older age groups.

It ties back to the problem of the business cycle, because I suspect the reason these people don't have a very strong financial position now is that they have been wiped out by periods of illness, unemployment, and so on. However, I think it is an objective that we would all agree we would hope to achieve as a society.

This leads me back to an earlier part of the discussion. There is one kind of credit I think which one might hope would diminish in importance over the next ten or twenty years. I have in mind the lending which occurs when the borrower is in trouble of some kind, lending to a man who is in economic distress, perhaps because he has been unemployed, or the lending when something else overtakes his family, or he has to consolidate his debts because he cannot meet them. This we would hope would diminish.

We would like to see more lending to borrowers who are in a position of strength. In fact, a striking thing is that we have thought almost exclusively of this lending to borrowers who are in a position of strength and who are raising their standard of living when we have thought of the future of consumer credit in this panel.

MR. EDMUNDS: May I address myself to Professor Woodworth's question? I think he deserves more precise figures on cyclical fluctuation. I did not address myself to that particular problem because it seemed to me the assignment I had given to me was to talk about the long-term movement of the economy.

I think, as you do, that the business cycle has not been broken up. I think that sometime between 1957 and 1959 we will see an adjustment in the economy which will begin with business inventories and go through the rest of the economy, and that will have greater magnitude than 1954.

We in the auto industry, at least in my particular division, have looked at our own fluctuations around a trend projected to 1965, and we feel they fluctuate about 15 per cent, plus or minus, whichever way the trend is. This gives an amplitude of automobile fluctuations in the neighborhood of 30 per cent. As you can see, that is probably wider than we have experienced—well, not than we have experienced in recent years, but we do not particularly feel that the fluctuation of automobile sales and other durables has narrowed.

I don't know that I could project a business cycle beginning now and going all the way up to 1965. I think to the extent we can give you an answer to your question it would be that probably there would be variations in the sale of these durables in the next three years of an amplitude about like that we had the past years, or a little more. In 1960-1965 we will have a stronger trend of rising incomes and rising capital expansion to meet a growing population again, so there is less possibility of wide cyclical fluctuation at that time.

So I come to the conclusion that if I were to try to plot variations from the trend which you saw me project up here—which was, after all, nothing

but some average rates of growth—it would tend to show some deviation below the trend at some time between 1958 and 1959, which would tend to pick up and go back to the trend and maybe exceed it a little in the mid-60s.

QUESTION: Earlier Professor Smock said something about the growth of the population being larger than we could conceive, as he anticipated it. That may be true, but it would seem that the generation following us probably could conceive it.

There is an area we may not have heard about, or at least I don't recollect it here, in the over-all picture where we have projected from averages. Have we taken into consideration the fact that today there may be a large potential group of wage earners who have not yet seen fit to invest in credit obligations, people who still have the old-fashioned idea that they should pay cash?

Have you, Mr. Edmunds, come across anything of that kind in your figures? Will the selling of the idea of using credit open new spending units up to become credit consumers?

MR. EDMUNDS: I don't know if I can give an adequate answer. I think probably Dr. Lansing would do a better job than I could on that. My impression is that it is closely related to the middle-income ranges and to the younger families, and that the result of this is that in these groups, the penetration or amount of borrowing is probably not going to be stepped up very substantially, and the other groups do not have quite the need for credit. I don't think it is so much a question of credit again as it is the kind of borrowing.

MR. THOR: I have not heard this mentioned and I would like to know about it. What do you think of the annual wage which has been developed in the last year?

DR. DAUER: I wonder if I might just attempt to answer the preceding question. If you take four characteristics, the head of the family in the age group 18-45, with children under the age of 18 and in the income group between \$3000-\$7500, four out of five have consumer installment debt. So if we say that the use of consumer credit for the purchase of durable goods is related to the family cycle, as we already have, then the degree of growth within that segment of the population is distinctly limited.

CHAIRMAN EITEMAN: That brings us back to the question we just dodged, the implications of the annual wage.

MR. FERRIS: Isn't the annual wage an attempt to eliminate this family that is either insolvent at the present time and owes more than it owns, or the family just about even financially? In attempting to do that we are arriving at some of the philosophy that has been mentioned here at this meeting.

I like this idea of philosophy, and I think perhaps the only answer we can give directly to the last question is that that is an attempt to bring

about the philosophy of equalization. I am glad we are not trying to be a group of Jesse Jameses up here on this panel, going to steal from the rich and give to the poor. That certainly is not the solution. I do not believe any further taxation of the rich to give to the poor is the solution to this philosophical problem of how we are going to get people out of debt and into the realm of buying durable goods, with the travel and culture and all the other things they want.

I do think this credit conference has the right idea putting it on the basis of the family. If the family can afford it and they have the potential for paying for it, it is pretty likely that the credit will not extend too far, if every family does not over-extend itself as a unit.

I am not so much concerned with the millions of dollars of credit totally in force as I am with each individual family as a unit. If they can manage their own affairs, the national economy is not likely to get out of hand.

While I am speaking I would like to comment on one more thing. I believe Dr. Lansing said part of the philosophy should be to eliminate this debt of loans for emergency in case of economic disaster confronting the family. The credit union has found somewhat of a solution to that problem through education.

The education from a practical point of view takes this turn: that most credit unions now are willing to take the earner's check and not make him a loan of a single additional dollar, but merely help him to manage his income in such a way that all of his debts are paid.

The Detroit Teachers Credit Union is doing that at the present time with 235 of its teachers in the Detroit system, who may be excellent teachers but who are not good financial managers. We are paying their debts now on the same or perhaps a little less than the promised amount to Sears Roebuck, the National Bank of Detroit, to ourselves, pro rata, without making any charge to the individual for that service.

I know that that type of service, where it is charged for and where it is abused, is distinctly frowned upon at the present time. However, if you will turn that job over to the credit union to which that particular individual belongs, the credit union will attempt, without charge, to perform that function for the individual, or for the family.

MONETARY POLICY AND CONSUMER CREDIT

Morris H. Strothman, Jr.

Our job this morning is to talk something of monetary management, with the idea of trying to determine, from taking a look at it as we have seen it in operation, whether we may individually infer to what extent it may go on doing the job for us, in the future, that we expect it to do. I am not going to make any predictions for you. That is not my function and I do not feel at all capable of looking ahead for you in this field, or in any other for that matter. I might say, just as a *caveat* to start with, that anything I may say here this morning represents my own impressions and opinions. I am not speaking for any segment of the Federal Reserve system officially.

Notice this word, "policy." When we talk about any kind of policy, economic or whatever it is, the word sounds awesome to us. Let's get it closer in focus. I think what we really mean when we are talking about policy today, at least for our purposes here, has to do with a set of objectives or maybe one long-range objective and certain intermediate objectives.

In order to find out how we may reach these, we must consider the means that we have for reaching them and the things that have been done in the past in order to reach certain objectives. So let us consider, then, monetary policy which is essentially the responsibility of the Federal Reserve. Bear in mind that when we talk about this monetary policy or monetary management we are discussing the ways in which and the conditions under which the over-all supply of credit of the nation may be affected, that it may be increased or decreased.

We must also bear in mind that although this is essentially a Federal Reserve business, there are other very important influences. For example, the Treasury has responsibility for management of the public debt, and what the Treasury may do by way of offering government securities at certain rates of interest and various maturities is bound to have a tremendous effect on the monetary market. Also, Congressional determinations in the fields of taxation and appropriations are very important, for what the Congress may do in those related fields has a great deal to do with whether, on balance, there is to be more money put into or taken out of the spending stream.

There is a third very important influence that was alluded to in several of the talks yesterday, really a set of influences, that you might speak of as social factors. These relate to the psychological, political, and other

social influences that may affect the most carefully drawn formulae of a purely theoretical economist. But despite these qualifying factors, it still remains the job of the Federal Reserve to do what seems to be appropriate to gear this supply of money and credit to the needs of the economy. So let us consider the implements or tools by which the Federal Reserve influences the supply of money and credit.

Basically there are three principal tools: (1) Reserve requirements; (2) discounts; (3) open market operations. In discussing these tools we should have in mind that they are somewhat dissimilar.

The reserve requirement tool has recently been described as one that has the crude power of a broadaxe. The same speaker referred to the other two, discounts and open market operations, as being capable of the delicate touch of a chisel.

The Federal Reserve power over reserve requirements is perhaps basic to our monetary control principles, although it is a difficult technique to employ to meet moderate changes in the economy. By "reserve requirements" we mean that by reason of the law, and the regulations of the Federal Reserve in pursuance of the law, each member bank must maintain a portion of its deposits in the form of a non-interest bearing account at the Federal Reserve Bank. This portion is related to the bank's deposit liabilities. I spoke of it as a portion of the bank's deposits. Truly you might say a portion of the bank's assets, but it is related to the bank's deposit liabilities, and today for our purpose it is roughly 20 per cent of deposits. It is actually less than that, but the 20 per cent round figure may be easier to use for purposes of illustration.

That may not seem like too much of an illustration. We might say a man deposits a thousand dollars in his commercial bank. That bank will have $800 of it free to use as it wishes and will have to put only $200 of it in its reserve account at the Federal. That might be true if we could ignore the principle that for monetary control purposes the entire banking system must be considered as being in effect one bank.

Where did that thousand dollars come from that was deposited? Although it may have increased this particular commercial bank's excess reserves it probably cleared through the Federal Bank and the bank may have left it right there. What did it do to the bank on which it was drawn? That bank lost enough reserves at the Federal to sustain $5000 in deposits. Actually the inter-relation among banks is such that the results are greater than I have indicated by that statement, but nonetheless they are quite real.

When we talk only about the number of dollars of reserves required for how many dollars of deposits, we do not tell the story. The important point is that deposits and loans must be spoken of in the same breath. When A borrows a thousand dollars from his bank he will take credit for that amount in the form of a bank deposit. It may be at the same bank or another bank; it really makes no difference. As he spends that money

he has borrowed, it will still remain a bank deposit, for it goes from bank to bank until the time comes when somebody finally uses it to pay off a bank loan. Then we see a reversal of the process. The bank's deposits of reserves is the prime medium through which these other controls operate.

In short, the effect of reserves is to control the amount of loans so that the outstanding for each loan tends to increase deposits until it is paid off, and since it increases deposits it must be backed up by reserves as required by the Federal Reserve. As we go on to talk about the other methods of monetary control we should keep in mind the importance of reserves. They have a real and direct effect upon the volume of bank loans that may be outstanding.

When we spoke of the reserve requirement approach as having the crude power of a broadaxe we were thinking of it as the control in and of itself. Raising or lowering reserve requirements may have a sharp across-the-board effect that will be undesirable in some instances. However, when we talk about the other instruments, the discount mechanism and open market operations, we have to bear in mind that this concept go down and the amount of reserves that are required of the.bank go down.

Now let us take up the discount mechanism and the manner in which it may be utilized as an instrument of control. You might say broadly that there are two ways in which discounts can affect the credit supply. One of these has to do with raising or lowering the discount rate, the price of the money lent by the Federal, in other words, the Federal Reserve's rate of interest for extensions of credit to other banks.

The other means by which the discount mechanism might be influential in the money and credit supply lies in whether the Federal at a given time may be willing or unwilling to make advances to, or to rediscount paper for, member banks. Any increase in the discount rate will tend to dissuade banks from borrowing at the Federal in order to supply the needs of their own customers, or else it will require a passing along of the interest increase to the customers. Either one of those things will result in a tendency to reduce borrowings by the commercial bank's customers to the extent that an increase in the discount rate brings about a reduction in member banks' borrowings and a consequent reduction of excess reserves. Those will be felt in a reduction in borrowings by bank customers.

Actually, there is a multiplied effect on reducing borrowings by commercial bank customers, for as we have seen, each dollar of reserves can support five dollars of deposit, which is tantamount to enabling the bank to lend $5 for each $1 of reserves. On the other hand, when discount rates are decreased, the maintenance of reserves through borrowed money becomes cheaper and therefore more desirable. Of course, in a period when there are substantial amounts of excess reserves in the banks, for example during the war and in the early postwar years, there is little or no borrowing by banks regardless of how cheap it is.

Entirely apart from the regulation of the discount rate, the price of borrowings, the Federal Reserve through being willing or unwilling at a given time to extend credit may influence, by means of the discount mechanism, the over-all credit supply. But it is probably a generally accepted view among bankers that in a time of real emergency, when there is anything involving forced liquidation of bank assets, the Federal Reserve would pursue a very liberal lending policy in discharge of its duty to take appropriate action to promote a sound and stable economy.

There is a great deal of argument about the converse of that proposition. Many bankers feel that the Federal should not close the discount window as a means of curbing credit expansion. I personally feel sure that the discount window will not be closed to a member bank which wishes to borrow for a truly appropriate purpose. I merely want to point out that there is an area there which is much debated in banking circles as to the use to be made of the willingness or unwillingness of the Federal to lend under given circumstances, entirely apart, now, of questions of the discount rate.

Before leaving our discussion of the discount mechanism let me direct attention to an important limitation on its effectiveness. That is the traditional reluctance of banks to borrow. They don't like to borrow or remain very long in debt. There has been some evidence that that reluctance is being overcome by some banks, but it still remains a very important consideration, and in times when a very strong expansionary policy is desired; that is, when we want to increase the credit supply, efforts to facilitate borrowings from the Federal by member banks to accomplish this have been talked about, as you know, as something in the order of pushing on a string.

Let us go on to the third principal instrument by which the Federal Reserve affects the supply of credit, open market operations, again bearing in mind the basic concept of reserves. We will find a point of similarity between open market operations and the discount mechanism, in that both exert an influence on the supply of reserves and thus on supply of credit. We will note one important difference between them: The influence of the discount mechanism depends on the initiative of the banks. If they have no occasion to go to the discount window they are not going to be affected by discount rates or discount policies. However, it is not so with open market operations, for when the Federal on its own initiative wishes to expand or contract credit it may do so by buying or selling securities in the open market.

Although the open market operations are today thought of as being almost entirely transactions in United States Government obligations, this is not necessarily so as a matter of theory. Dealings in any type of asset which is sufficiently popular as an investment medium to be really effective, might, in a different ecnomic setting, do the job. For example, we might have dealings in commercial paper or bankers' acceptances under

other circumstances. But today the money markets are necessarily sensitive to government bond transactions, government securities transactions. So we will talk about open market operations of the Federal as being confined to such obligations.

Briefly and roughly this is the way the device operates: Assume that the Federal wishes to reduce member bank reserves by, say, $50 million and thus reduce the available supply of credit. It sells government obligations in the open market to a dealer or dealers. We say one dealer for the sake of simplicity. That dealer will sell them to his customers and may keep some on the shelf as part of his inventory, but he pays for them by drawing a check on a commercial bank. That check reduces that commercial bank's reserves with the Federal by $50 million. It will be offset in the Federal statement by a like reduction of the Federal holding of government securities.

The commercial bank—of course, there are usually a number of commercial banks involved, but we will take one for illustration—then has to readjust its position, and whatever it does to accomplish this will operate to spread that transaction among banks generally. If it draws down balances at its correspondent banks, the latter obviously will be reduced in reserves. If it refrains from making loans and lets its loan portfolio reduce, there will be an increased loan demand at other banks. If it sells securities, they will be paid for by checks which reduce the deposits of other banks. If it transfers these deposits to the bank selling the securities, the reserve balances are raised.

Even borrowing at the Federal does not eliminate the effect of an open market sale of securities, for so long as the bank is indebted for borrowed money it is less willing to make loans or renew old ones. These illustrations might be multiplied, but I think that will suffice.

There is, we must bear in mind, a definite and important relationship between open market operations and member bank borrowings. When the Federal sells government securities discounts tend to decrease, and when open market purchases are made, member banks reduce their borrowings. Thus, it may be Federal Reserve practice to make a complementary use of these two instruments of credit policy.

This inter-relationship of open market operations and discounts has a tempering effect. Were it not that member banks could borrow or repay borrowings at the Federal as a temporary means of readjusting their positions, the open market operations would promptly produce a rather sharp result. Since reserve requirements are currently one-fifth or less of deposits our hypothetical open market sale of $50 million in government securities would, assuming, (as is true today), the absence of free reserves, cause a deposit reduction and consequently a loan reduction in the neighborhood of $250 million.

The Federal Reserve does not try to set or to maintain any particular level of interest rates. Its job has to do with the quantity, with maintain-

ing a supply appropriate for the needs of the economy. But there is nevertheless a tendency in these operations to affect rates. You might say it is a necessary by-product of credit control measures, and in connection with the open market operations of the Federal Reserve banks interest changes are frequently noted.

It will be recalled that during the war and the early postwar period the Federal Reserve open market activities were so conducted as to maintain government securities at prices close to par with a relatively low pattern of interest rates. This policy served to meet the heavy credit needs of government and industry during the critical war period, and it permitted a tremendous expansion of our economy. However, as the transition from war to peace progressed, it became evident that the Federal could not do an effective job of adding to or absorbing bank reserves if it was to be called upon to maintain government securities yields at any arbitrary levels.

In March of 1951 the Federal Reserve and the Treasury reached the famous Accord which provided for the discontinuance of this pegged market in government obligations. Since the Accord, open market operations have been directed toward the major objectives of Federal policy, to contribute to stable economic growth. Since that time we have experienced some rate fluctuations, but have fairly well been able to keep the credit supply at desirable levels.

Changes in interest rate play an important part in our business activities, as we all know. They wield a considerable influence in the judgments of both lenders and borrowers, and they affect capital values.

Many of you men are engaged in extending consumer credit, and since I am with the Federal Reserve, both you and I will recall that not long ago our discussion would have dealt primarily with Regulation W. I do not propose to speak extensively as to that. I want to refer to Regulation W along with Regulation X in relation to real estate, as you recall, and the stock market regulations under Regulations T and U as being selective credit regulations, unlike the general controls we have referred to.

They were adopted under circumstances when it was felt that it was impossible to affect the supply of credit in these particular areas by general means without affecting the economy at large adversely. In many circumstances it would have produced an interest rate pattern that would have been out of line for other segments of the economy.

I hope that nothing I have been saying here will give the impression that the Federal Reserve people lay any claim to infallibility or, for that matter, that any of us think the Federal Reserve or any money managers could come anywhere near to perfection in gearing the supply of credit to the nation's needs, unless we were equipped with something in the latest model of crystal ball. None of us has the gift of foresight. So we must bear in mind that judgment as to what may be likely to occur if things are left unchecked will have to depend on appraisals of existing conditions and past events.

That points up a problem of a time lag. That lag may work in two directions. On the one hand, action may not be taken until the occasion for it has become manifest. On the other hand, the policy change may not immediately show its effects. So the task of the administrators in the credit policy is a difficult one. If they wait until the figures and charts clearly point out that action is needed it may be too late to do the most effective job. On the other hand, the opposite course is likewise unattractive, for you can see it is dangerous to proceed purely intuitively.

It is thus of very great importance that the monetary authorities do everything possible to keep currently informed of business and financial developments. Fortunately the means for doing this have developed to an amazing degree of proficiency in comparatively recent years. I refer not only to the work of the trained observers of the Federal Reserve Board and the twelve Federal Reserve banks, but also the great contribution that is being made by students of business and finance in industry, government, and our great universities and colleges.

We perhaps have not quite reached the millenium in this field. I am sure we have not. We undoubtedly have a long way to go until we are able to assess accurately all of the psychological, social factors and other things that may go into a judgment as to what should be appropriate monetary action at the time. However, I feel that the work that has been done in the last few years in this area should give us great encouragement that we are moving in the right direction and are much better able to handle these things than we have been in past years.

So far we have been talking along the lines of the techniques of credit control upon which policy must depend in order to bring it to its fruition. We have alluded somewhat briefly to limitations on central bank policies and to the problems of inexactness in timing. Before I close I think we might have a few examples of policy in action, just by way of illustration.

One example we have already alluded to. That was that during the war and early postwar years when the Federal Reserve Bank was supporting the pegged market in governments in order to help out the Treasury in its debt management job. Then the Accord. And for a short time after the Accord, according to some observers, the Federal continued a sort of tapering off process to lend some support to government markets. But by the last half of 1951 it appeared that influencing the volume of credit was the sole objective of the Federal. At that time the price of governments dropped to a range of, say, 95 to 99. This was regarded as quite an important victory from the Federal Reserve view, for previously a number of people had been of the belief that a withdrawal of Federal support of the market would result in a very disastrous decline in prices and very disorderly market conditions. As it turned out, the down-turn in governments was reasonably gentle and was readily acceptable in terms of the trend toward normality that was engendered by these things.

Before long, in mid-52, about a year later, the situation had remarkably changed. The banking system had reached a point where, for the first time in nearly twenty years, the banks were forced to borrow money in order to maintain the reserves that the law required. This condition of tightness in the money market continued for a year, until the middle of 1953. Looking back at that period we find it was one of rising interest rates, but without a significant price inflation. Nonetheless, it seems to have been a period of prosperity.

Then in the middle of 1953 there was a switch in signals again. A change in Federal Reserve policy apparently was indicated, and the Federal responded by buying in the open market and reducing reserve requirements. During the last half of 1953, it has been said according to one observer, Federal Reserve policy changed five times in about as many months. Those changes were minute. The language employed in describing them has to be carefully examined in order to see the gradual differences. But the important thing seems to me to be that the changes of policy, even though the graduations are comparatively slight, point out that there has to be a fluidity of central bank policy. Although the policy changes at times appear to evolve so slowly that you might liken them to the progress of a glacier, at other times you may have overnight what appears to be a reversal of a policy of some long standing.

Let us consider what action was taken by the Federal open market committee last December in connection with the Treasury's refunding at that time. That has been pointed to as a sudden and sharp departure from a policy of long standing. You may recall that the Treasury, in order to refund some $12 billion of December maturities, offered a package of a certificate and a note, a 2½-year note and a 1-year certificate. Although the package looked good, it did not meet with as much favor as had been anticipated, and it seemed that maybe the offering was not going to be as successful as had been hoped for.

At this stage the Federal Reserve supported the market by taking some $3 billion of the certificates. That occasioned a great deal of surprise and, in some quarters, an amount of consternation, for it seemed quite inconsistent, contradictory to the policy the Federal had been following for more than four years of not supporting Treasury refunding. Also, it marked the first time in two years that anything other than 90-day Treasury bills had been added to the Federal portfolio.

Apart from the operations of last December, Federal Reserve policy during the year 1955 evidenced no drastic or rapid shift. Business activity had started an up-swing late in 1954, appearing to have been fostered by the policy of activity then pursued by the Federal Reserve.

As the economy's dependence upon the stimulus of easy money became less and less, the Federal early in 1955 appeared to start to take up some of the slack in bank reserve positions. There developed at about the same time a heavier than normal demand for bank credit. The result was that

bankers' positions were getting tighter. Member banks found it necessary to resort to borrowings at the Federal in greater amounts.

In the late spring Federal Reserve discount rates were increased from 1½ to 1¾ per cent. The expansion forces gained momentum during the summer. There seemed some indication toward a growing tendency of inflation. The Federal allowed member bank reserves to shrink still further.

You might bear in mind that the Federal Reserve, by taking no action at all in the open market operations may influence the money supply at a time when there is a great demand upon the banks; by failing to supply added reserves a tightening effect is engendered by a policy of non-action as an open market policy.

Member bank borrowing has continued to grow, and in August and again in September the Reserve bank rates of discount were increased from 1¾ to 2¼ per cent. The pressures continued and the discount rate was again increased in November to 2½ per cent. When we look back over the year we find there was a record increase in commercial bank loans. They went up by 11.6 billions of dollars. It was made possible in large part by the liquidation of bank investments.

It seems, however, that price inflation was held in check during the year. It is of course impossible to estimate how much further bank credit might have expanded but for the Federal's restraining influences. However, we must bear in mind that shortages of steel and other strategic materials were developing, so that any significantly larger growth of credit during the year could not have been matched by an increase in output and, it would seem, would necessarily have resulted in price inflation.

The pattern thus far in 1956 has not seemed very dissimilar from that of late 1955. Commercial banks still find the loan demand is quite heavy. Borrowing by member banks of the Federal has continued at high levels through the last quarter.

We are getting uncomfortably close to the present in this dissertation, so I think I would be well advised to close now before I do what I said I was not going to do, attempt to guess with you as to what will happen next. It has been a pleasure to be with this conference.

INSTITUTIONAL CREDIT RESTRAINTS

PANEL DISCUSSION

CURRY B. FREEMAN

I propose to discuss for just a very few minutes the voluntary credit restraints that can be imposed by commercial banking institutions themselves and the Federal Reserve policies that influence the restraints of the commercial banks.

Within our commercial banking system we have the best machinery ever devised to insure an adequate distribution of a nation's available credit resources. Holding something over 37 per cent of the $27,700,000,000 of installment credit outstanding on January 31, 1956 and lending substantial sums—probably as much as 3 billions—to sales finance and loan companies, the commercial banks are in position to exert a most wholesome influence upon the quality and amount of consumer credit.

The practices of commercial banks engaged in the consumer credit business will vary from institution to institution and from area to area. For all practical purposes it is nearly impossible for banks, as well as sales finance companies, to agree on and abide by acceptable standards of soundness. Generally speaking, however, when it becomes necessary to limit or reduce consumer paper, banks will begin by up-grading credit risks through shortening terms and increasing down-payment requirements. By this seemingly simple but not-so-easy procedure, the less desirable risks are either siphoned off to other sources or never negotiated, the poorer dealers eliminated, and sources of paper reduced. The mere expediency of increasing interest rates and service charges is not in itself effective in controlling consumer debt.

The loaning activities of commercial banks are responsive to the policies of the Central bank but such responsiveness is of necessity one of gradual progression. Every good bank wants to accomodate its customers, seeks to develop new business and to earn a satisfactory return on the investment of its shareholders. To maintain its competitive position it goes all-out to take care of every piece of desirable business.

The National Banking authorities now generally regard a 6 to 1 ratio of risk assets to capital funds as a desirable maximum. This ratio supplanted the old deposit ratio of $10.00 of deposits for each $1.00 of capital funds basically as a result of the large investment by National banks, particularly during the war years, in government securities plus government deposits. Operation of this 6 to 1 ratio acts as an automatic brake on the lending activities of national banks. Those with ratios of

risk assets higher than this recognized standard are subject to criticism and will take steps to provide additional capital, and if such is not available, to control or reduce such assets. The present day significance of this ratio is vividly pointed up in June 30, 1955 figures of national banks indicating a proportion of risk assets to capital funds of 6.2. In view of the increase in loans occurring subsequent to June 30, 1955 this ratio must now be higher and increased pressure by National Banking authorities to obtain corrective action may be expected.

When reserve supplies are decreasing, as they have been for several years, it is necessary that banks constantly review loan policies and make frequent decisions affecting the area of lending activity where pressure is to be applied and the extent of such pressure. This involves the relationship between total loans and installment loans and installment loans and other classes of loans. There is no acknowledged standard with respect to such relationships, banks operating individually in accordance with local conditions and management policies. It is probable that as a group commercial banks operating in the consumer credit field would regard 20 per cent as a reasonable ratio of installment loans to total loans. The results of a survey recently released by the American Bankers Association indicated that the installment credit of reporting banks, on the average, amounted to 22.2 per cent of gross loans.

The aim of the Central bank has been to restrict the supply of reserve funds available to banks, to slow down credit expansion. In 1955 the rediscount rate was raised four times and during the year there was a continuing decrease, evident since 1952, in the liquidity of member banks. Notwithstanding these events loans mounted rapidly during 1955 with installment debt held by commercial banks rising $1,664,000,000.

The need for continuation of the present Reserve system policies shows no sign of abating. There is simply not enough productive capacity nor materials nor credit to continue through 1956 the 1955 rate of loan expansion. It is of some concern, then, that commercial banks pursue time-proven credit policies, and that they themselves first cease trafficking in sub-standard deals and see to it that their finance company customers do likewise.

During the past few years there has developed a radically different concept of consumer credit soundness. The real basis for concern at the present time, as was pointed out yesterday afternoon, is the quality of the consumer paper being generated, not the amount. For a long time we insisted that the buyer start off with and maintain an equity in articles purchased on a time payment basis, in addition to satisfying ourselves as to his credit-worthiness and ability to service all of his debts. We now see terms of 36 months and longer on automobiles with fancy trade-ins and allowances. In many of these deals it is doubtful if there will ever be any equity in the collateral to protect the purchaser of such paper. Equities in automobiles have historically been used by owners as full or

partial down-payments on their next car. If the present long terms and low down payments are continued and expanded, there will be no equities to use and the market for new cars will be adversely affected for some time. Lenders should remember that the poorest installment paper is always put on the books in times of greatest prosperity.

Another factor placing great strain on our credit machinery and increasing the job of the banking system is that of burdensome and confiscatory taxation. Accelerated tax payments make it necessary for many customers, large and small, to borrow to meet such payments, and in the process they use accumulated funds, thus reducing deposit balances. High taxes have developed an atmosphere in which it is good business to create as large a debt as possible, and many businesses and individuals operate in this atmosphere. Additional strain has been placed on the credit structure of our commercial banking system through purchase by bank customers of government securities the banks sold to raise funds to meet loan demands. This has produced the phenomenon of loans expanding and deposits falling simultaneously, whereas normally a rising loan volume results in a build up of deposit balances.

Those engaged in consumer credit operations are urged not to be parties to unorthodox practices and blitz merchandising tactics. The task of supplying the credit needs for a rapidly expanding economy is a complicated and far-reaching one. All lending agencies working together with and supporting the Federal Reserve system can continue to take care of all worthwhile credit requirements without controls and in the good old American way.

RAY DAWSON

I have been making this study with the cooperation of the American Finance Conference and the National Consumer Finance Association to determine the effects during the period from 1949 to 1954, of the monetary policy upon the source, amount and cost of funds used by the sales finance and small loan companies.

This particular study arose partially at the suggestion of Ernst Dauer of Household Finance. The question was asked: "What effect upon the supply side of credit does monetary policy have?" I submitted to 100 firms in the sales finance and small loan company industries a long and very detailed questionaire. The response was much better than I had expected. Fifty-one companies, out of the 100 which I questioned, replied. This resulted in a coverage of approximately 75 to 80 per cent of the total consumer credit granted by sales finance and small loan companies. The study is weak on the side of the small companies, primarily because they did not have the manpower nor the information to compile the information in the questionnaire. It was quite long, and I apologize for that. However, I felt I needed it. I hope the study is of sufficient value to the

members of the industry that they feel it was worthwhile. I want to take this opportunity to express my appreciation to them for their cooperation.

The impact of central bank policies on lending institutions is felt by the sales finance and small loan company through the amount, the source, and the cost of funds which they lend to consumers. The effect of central bank policies on the amount of funds of the sales finance and small loan companies would be very difficult to determine, because in measuring the effect of any restrictive policy the thing that is important is what might have happened if there had been no restrictive policies. Although we keep many records of what has happened, we keep no records or very few records of what did not happen or what might have happened. So the only way to estimate the impact of central bank policy on the amount of funds committed to consumer credit by the sales finance and small loan industry is to try logically to deduce from their actions whether they were following courses that tended to decrease the number of consumers who would be eligible or who would want to borrow funds.

The actions of the lending institutions, although not completely determined by monetary policy, are to some degree influenced by monetary policy. One of the actions which I found was taken by about one-third of the 28 sales finance companies included in my sample, was that to some degree they raised their rates charged to the consumers during this period of tightening monetary policy. This may have been an increase in the rates on new cars retail, it may have been an increase in the rates on used cars retail, or it may have involved an increase on the wholesale plan to dealers.

In most cases it involved the wholesale plan to dealers, because the rate charged the dealers on the wholesale plan was very close to the rate at which the finance companies borrowed their funds. But in some cases they did raise their retail rates and they did raise on both new cars and used cars. Of the 23 small loan companies included in this study only one company raised its rates. Most of the other companies, when asked this question, indicated that they were already charging the maximum legal rate in the state in which they were operating, so they did not have the alternative of offsetting the tightening monetary situation by changing the rates. Other actions some of the companies, both sales finance and small loan, took to decrease the number of people using consumer credit, were to tighten down-payment requirements, change the maximum terms of the loan, and in many cases change the test of credit worthiness. This is the only thing which we can say about the actual effect of the restrictive monetary policy upon the total amount of consumer credit, again because we cannot in any way, shape or form measure what might have happened if we had not had restrictive monetary policy.

The second phase of the impact of central bank policy on sales finance and small loan companies, namely the source of funds used, cannot be disassociated from the cost of the funds, but for the purpose of emphasis

it will be treated separately. The most pronounced shift in source of funds for these companies was from short-term funds to long-term funds. The shift for the largest sales finance companies was not primarily caused by monetary policy, but by the institutional framework of our banking system. With the growth of the companies, the banking system could no longer provide the amount of short-term funds that the largest companies needed to transact their business. This is the result of the National Banking Act which requires that a national bank may not loan more than 10 per cent of its capital base to any one company. This effectively limited the amount of funds which the larger sales finance companies could obtain from commercial banks during 1953 to approximately $500 or $550 million. As these companies had assets somewhere between $1,500,000,000 and $2,500,000,000 at that time, it effectively provided a top limitation upon the amount of funds which they obtained from this source.

It was in the areas of the medium-sized sales finance and the large and medium-sized small loan companies that the shift to long-term funds from the traditional short-term funds was influenced by the central bank policies. In this case some statistics might help. In the period from December 1, 1949 to June 30, 1951, and the second period of June 30, 1951 to June 30, 1953 there was the same approximate amount of growth in consumer credit by the various sized sales finance and small loan companies which I included in my sample. To notice the effect of this change from short-term to long-term funds on the increased assets from 1948 to June of 1951 of the largest sales finance companies it should be noted that 29 per cent of their increased assets were obtained by increasing their long-term debt. In the following period under more restrictive monetary policy, or what I like to call effective or partially effective restrictive monetary policy after the Accord, the long-term funds accounted for 45 per cent of the total asset growth. In slightly smaller sized companies of the sales finance field, in the period 1948 to 1951, 9 per cent of the additional assets were obtained by the increase of long-term debt. In the period 1951 to 1953, 17 per cent were obtained by long-term debt, a significant change for that source of assets. In the larger small loan companies during the period 1948 to 1951, 41 per cent of the total increase in assets was obtained by long-term debt. In the period 1951 to 1953, 52 per cent of the increased funds came from long-term debt. The companies with under $10 million in assets correspondingly increased the proportion of their increased funds obtained from long-term debt.

The essential reasons for this shift as the result of monetary policy were: (1) The desire to remove the uncertainty for a certain portion of their funds; (2) a desire to stabilize at least a portion of their interest costs, again the result of uncertainty about the future; (3) the long-term funds were about as cheap as the short-term funds, with less uncertainty.

This change probably came about, though there is no way of knowing for sure, because of the way in which the Federal Reserve restricted the

monetary situation. There is some question about this—and we analyze monetary situations in terms of long and short-term funds—that there is a continual growth possibility because of savings in the long-term sources of funds. This means that the increasing supply of long-term funds and the increasing demand did not cause the interest rates to rise as much in long-term funds as in short-term funds. In essence, the supply is determined by the monetary policy in the way in which the Federal Reserve implemented its policy in 1952-53. So we saw this case of the long-term funds becoming, in the eyes of the borrowers (the sales finance and small loan companies) relatively cheaper as a source of funds.

There were no essential shifts in the source of funds of the smaller companies, because of the lack of alternate sources of funds. A few of the small companies tried for long-term money from private placement sources, but they were told that the amount they wished to borrow was too small. With the situation in which the large companies and the medium-sized companies were willing to borrow quite a few million dollars, the people who had funds in the private placement sources were not interested in placing small amounts. There were also some shifts in the sources of short-term funds, caused by central bank policies. As the rates on bank loans rose, the large sales finance companies began to use commercial paper as a large source of short-term funds. This again was partially the institutional factor of limitation on bank lines of credit, and partially because it was a cheaper source of funds. As a demand for commercial paper funds by the large sales finance companies increased, the medium-sized sales finance and the medium-sized small loan companies were able to obtain only a relatively smaller portion of their increased assets from this source.

We therefore saw that of the total short-term notes payable of the largest sales finance companies, their commercial paper accounted for 33 per cent on December 31, 1950, and accounted for 54 per cent on June 30, 1953. The next size sales finance companies had 11 per cent of their short-term notes payable in the form of commercial paper at the end of 1950, and only 9½ per cent on June 30, 1953. The next smaller group of sales finance companies had 12 per cent of their short-term funds from commercial paper sources at the end of 1950 and dropped to 5 per cent June 30, 1953, a decrease in the relative availability of short-term funds to the smaller companies. The small loan companies experienced approximately the same conditions.

Another phase of the impact of central bank policy was the increased percentage of utilization of bank lines of credit as the money market tightness became more intense, and then the slackening in per cent of the utilization as the money market eased and the companies were again able to increase bank lines of credit. This can be shown by the analysis of the figures and per cent of utilization of bank lines of credit between June 30, 1952 and June 30, 1953 and June 30, 1954. In all cases there was a

rise in the degree of utilization between 1952 and 1953, and a fall in the degree of utilization of bank lines of credit between 1953 and 1954.

Still another phase of the impact of central bank policy on the sales finance and small loan companies' sources of funds was the availability of funds from various sources. In this I asked certain questions of the companies. One question related to bank lines of credit: "Were there any times between 1950 and 1953 when your existing line banks requested that you did not use your lines of credit for a period of time?"

There were 15 of the 51 companies who indicated that in isolated cases, as a result of the restrictive policy of the Federal Reserve and its pressure upon bank position, they were asked by their existing line banks not to use their line of credit for a period of time. This may or may not have been significant in any large sense, but again, it was the beginning of a pressure upon sales finance and small loan companies. There were two cases in which the existing line banks requested that the companies should not use more than a certain percentage of their available line of credit. There were seven cases in which the banks asked the companies to reduce their lines of credit. There were nine cases of companies who said they were asked by some bank actually to cancel their lines of credit. The reasons given in this case were the regional credit demands, and some sales finance companies from another region of the country were asked to cancel their lines of credit because they did no business in the particular region. Some were cases of being over-loaned. Some of them were just cancelling the newer credit lines and taking care of their long-term customers. Most of the requests for non-use or decreased percentage of use resulted in the cancellation of the lines by the company.

In long-term funds, to attempt to determine the availability from various sources of additional funds if the companies had desired them, I asked the question: "Do you believe that additional funds would have been available from certain sources?"

Of the 51 companies, 15 said they did not believe they would have been able to borrow additional funds on an unsecured basis from insurance companies or private placements. These were largely the smaller and medium-sized companies. Eighteen said they would not have been able to borrow additional funds on a subordinated basis. Eighteen said they did not believe additional funds were available on a junior subordinated basis. From other non-bank sources, pension funds, etc., there were ten companies who did not believe they could have obtained additional funds during this period of time on an unsecured basis, 13 on a subordinated basis, and 12 on a junior subordinated basis. This is an indication that there was some unavailability of funds. In some cases it was a question of the companies just not having a sufficient-size capital base for additional borrowing. Another reason was the size of the company, as I indicated previously on the smaller companies. A few indicated they thought additional funds should have been available to them, but they were not available within the alternatives these companies had.

The third impact of the central bank policies was on the cost of funds which the companies used. The average cost of borrowed funds for the sales finance companies, all 28, rose from 2.27 in 1949 to 3.15 in 1953. The small loan companies' average cost of borrowed funds rose from 2.72 in 1949 to 3.51 per cent in 1953. These averages are somewhat misleading, so let us look at the cost of new funds which they obtained. The bank rates in this period, from the early part of 1949 until 1953, rose about one and one-fourth per cent. The commercial paper rates rose about one per cent. The long-term fund rate rose about one per cent. The result of these increased rates of interest on borrowed funds was that the marginal companies had reached the point where it was no longer profitable to borrow additional funds, and the other companies were earning a slightly smaller rate of profit for their common stockholders.

There are very strong indications from my study that the consumer credit section of the economy, as represented by the sales finance and small loan companies, did and would in the future react in the same manner as other borrowers to the discipline of the money market, and that there should be very little case made for treating them as a different segment of the economy.

SIDNEY ROLFE

Mr. Dawson very rightly noted, I think, that the main effects of changing interest rates and Federal Reserve policy on the sales finance companies are three. First, these companies attempt to reduce costs in view of rising interest rates, and they do so primarily by reducing their potential loss—that is, by limiting the risk paper which they take, which is actually a cost-reducing device. Increasing income is of course another adjustment to interest rate rises, and this usually takes the form of altering the wholesale rate to the dealers. Depending on the amount and expected duration of changing interest rates, other income raising techniques may be used. Higher consumer rates are in the category of a last resort. Between 1940 and 1955 there was only one general, across-the-board increase in customer rates, in 1955, in response to what looks like a long-term upward shift in the structure of borrowing rates. He also noted, and I think it is very important, the shift to long-term funds in the "source portfolio" of the sales finance companies. The shift to long-term funds not only represents changing interest relationships, I think, but also a change in the expectations of the sales finance companies for the future.

While the business cycle has certainly not yet been repeated, it seems quite certain that future economic activity will take place on a higher base than prevailed even in the late 1940's—the result of our larger population, means a more or less permanently larger base of funds, available for long periods of time. Many of these long-term debenture issues are callable, car stock, suburbanization, income structure, and other factors. This

which is a way of keeping one's powder dry in case presently unforeseen dangers appear.

Mr. Dawson's third point is that in the structure of short-term funds there would continue to be some shift away from the use of bank funds to the commercial paper market. This would result from the factors Mr. Dawson raised—namely, the relation of commercial paper to Treasury bill interest rates, which makes commercial paper borrowing cheaper than bank borrowing; and the institutional restraints on the banking system, chiefly the 10 per cent lending limits established by the National Bank Act, which mean the banking system cannot easily provide the incremental short-term funds necessary to the sales finance companies. It is obvious that these are important factors, and that they have been causal in the growth of the commercial paper market to date. There are, however, some other economic factors to be considered in this matter.

Mr. Francis Pawley wrote an article entitled, "Directly Placed Commercial Paper," in the December 1954 *Federal Reserve Bulletin.* In that article he describes the market for directly placed commercial paper. (I will not describe it now since anyone who wants to read it can do so.) But I would like to point out that this market passed something of a milestone last month, in that there is now $2 billion outstanding in the directly placed commercial paper market. This is a market which is run essentially by five sales finance companies: GM Acceptance, CIT, Commercial Credit, Associates Investment, and the General Electric Credit Corporation.

As Professor Woodworth pointed out, this is a source of real savings It is not monetized debt, but real savings, in the form mainly of corporate short-term liquid assets, tapped for the purpose of sales financing. Most of the $2-billion-odd which goes into this market is raised from corporations which have short-term funds by virtue of their very large retained earning positions. Because this is real savings, I think the sales finance companies feel that the net impact on the economy of this use of funds is somewhat less inflationary than would be a similar draw-down of bank funds, which would be an addition to the money supply.

The extent of the use of commercial paper as short-term financing is indicated in Mr. Pawley's article for the period from 1948 to 1953. In that period he indicates that approximately 73 per cent of new short-term borrowings came from this source, and the shorter period, 1950-53, the figure was 95 per cent. He notes incidentally, that for 295 large banks, controlling 50 per cent of U. S. deposits, a further expansion of borrowing lines to the five major finance companies would have been virtually impossible, owing to the National Banking Act statutory limit noted earlier.

One of the confusing things about this to students of the money market is that there are in fact two commercial paper markets. The name is used somewhat loosely in monetary parlance. There is a second com-

mercial paper market, which is also very heavily represented by sales finance companies, which moves through brokers, as opposed to the directly-placed commercial paper market. Although older, and once the larger of the two, outstandings in the broker market now run only about 25 per cent as large as in the directly-placed market. In the Federal Reserve System's reports the second, or broker market, is designated the "prime commercial paper" market. Normally, the interest rate paid by the borrower in the directly-placed market is just under that in the "prime" commercial paper market, indicating somewhat highly qualitative judgment for directly placed paper by lenders.

Mr. Dawson has very competently, I think, described the impact of changing interest rates on the money side of sales finance companies. There is obviously another important facet of the future faced by sales finance companies. This is in the whole area of competition and in the market which sales finance companies face.

In the prewar period a number of articles were written about the economic theory of the markets for sales finance companies. One of the best was written by Mr. Yntema, now Financial Vice-President of Ford, who was then a professor at the University of Chicago. In the article he pointed out that this is essentially a market characterized by what he called monopolistic competition, in which there were a few sellers and in which price was not competitive. However, I believe now the situation is substantially changed. It is hard to describe this market as anything but pretty close to a real competitive market. In terms of numbers, institutions providing installment credit include about 2500 sales finance companies, and over 8000 banks. This is actually a very large number of local markets, in which prices and rates charged may differ depending on a number of factors, including the degree of competition. You are obviously not dealing with a product transportable across large areas; it is a service which is locally delivered. Therefore, although there are local variations, it is hard in general to say this is not an intensely competitive market.

The intensity of the competition is indicated by the price charged for credit, which had not changed until a few months ago from approximately the levels which were charged in 1939-40. That means that in the whole postwar period, despite a tripling in the cost of operation, despite general rising costs and the inflation with which we are all familiar, the cost of credit to the consumer was not raised across the board except in scattered instances, on a local basis.

It is a defensible generalization that the cost to the consumer was not raised between 1940 and 1955. In 1955 the whole interest structure had shifted up, so that, led by certain large banks in New York and the large finance companies, the rate to the consumer changed. However, this was about the first time in 15 years, despite the rising costs. If competition makes for low and fairly uniform cost as among companies, then competi-

tion has had this effect not by overtly lowering the price of credit, but by holding it steady while prices and the whole index of economic activity rose. So in effect there has been a decline in the real price of credit to the consumers. The significance for the future is obvious. Adjustments to interest changes will be more difficult to make via raising consumer charges.

The last point I would like to make is the outlook for the period ahead. This is where I would like to stimulate some discussion. In 1955, as everybody knows, the volume of consumer credit reflecting high auto sales was enormous. The net result was that, with respect to automobile credit (again citing figures roughly), the outstandings of credit went up about $4 billion, which was about 40 per cent on the base of outstandings. At the end of 1954 outstandings were $10.5 billion, and $14.5 billion at end-1955. It is of course this tremendous rise in consumer credit outstandings which has touched off all the great to-do about consumer credit, and perhaps the request for the study of controls as well.

How does 1956 look with respect to this outstandings picture? I think a number of calculations have been made now which might run something like this: If one projects the extension and repayments of automobile debt in 1956, and if auto sales are 6.7 or 6.8 million units, the total amount of outstandings reported by the F.R.B. will not rise more than a billion or at the outside a billion and a half. In other words, with a 6.7 million sales rate an increase in outstandings of about 10 per cent would take place, compared to over 40 per cent last year. If car sales drop to 6 million units, however, there is no addition to outstandings, and below this level net repayments will transpire.

It is interesting that, as far as the money market is concerned, there will probably not be a significant decline in outstandings; that is, net repayment by the sales finance companies to the banking system or to the commercial paper system, unless automobile sales go below 6 million sales.

As far as the wholesale sector is concerned, there are likely to be net repayments by sales finance companies to the money market as the year proceeds. It is simply unlikely that inventories will exceed present levels in 1956, even with the new-model introductions in the fall. It is likely there will be net reductions of inventories, hence of sales finance borrowings to float those inventories in dealers' hands. While wholesale borrowings do not appear in the F.R.B. statistics on consumer credit, they have a significant effect on the money market.

Taken together, with little or no net addition to retail outstandings, and net repayments of wholesale outstandings, the industry will on the whole be a supplier and not a user of funds in 1956.

What about rates of borrowing in the money market? I would like to throw out a contention, which some of you can question. It now appears that there are really two determinants working in the money market. The long-term market is being determined very largely by the capital expendi-

tures situation. The short-term market is being determined (not solely but this is the factor which alters the balance) by the inventory situation. There is an interesting divergence at present.

As everyone knows, bond prices hit their low point for the year to date on April 3, 1956. Thus, yields on bonds hit their high point on that day as did the long-term money market. Why did it do so? It did so primarily, I believe, because of the cumulative effect of the announcement by the Department of Commerce and the SEC of the survey of capital expenditures.

Nobody had anticipated capital expenditures of $35 billion, 22 per cent above 1955. When the calculations began to come in it became apparent that the corporations which were doing the capital expansion could provide all but $5 billion of their capital expansion program from internal funds, from retained earnings and depreciation allowances. However, $5 billion of long-term funds is a significant strain on the market, and it is enough of a strain to have had this effect, which was really a very large move in the bond market.

It is interesting to compare this period with another period somewhat similar; namely, 1953 when again you had a low point in bond prices, and see how it plays on the outlook for interest rates. If one measures by using the return on AAA Moody corporate bonds, the high yield day was April 3. The actual yield was 3.15 per cent. At the height of the bond panic, which was June 1953, the yield for the same bonds was 3.4 per cent. This is a difference of a quarter per cent, and means that if the conditions of 1953 were to be recapitulated, bond yields would move up another quarter of a per cent, and bond prices down another 2 to 3 points.

Are they likely to be recapitulated? I would say not, because although there was in 1953 a very similar set of conditions to that which exists today, an excess of capital expenditures needs of about $5 billion over available supply of funds, the real panic market of June 1953 was precipitated by the appearance of a badly timed long-term government bond. It is unlikely the Federal Reserve and Treasury officials would make that mistake again. Consequently, one may conclude that this yield point, 3.15 yield on long-term current bond prices, is something of a ceiling, for the present, from which yields will decline and bond prices rise.

That does not necessarily say, however, that in the fourth quarter when we can all expect a substantial pickup in the volume of business, we might not go through this business again, with the rising interest rate and the falling bond prices. However, unless the fourth quarter pickup assumes violent proportions, long rates may well stay steady, with only the short sector changing.

Questions From the Floor

Question: I would like to ask a question of the panel members. Mr.

Strothman mentioned a rise in the Federal discount rate of, say, a half per cent. If the banks seek to recoup the increased costs by raising the customer rates, they would have to raise the rates to customers by only one-fifth of that amount, would they not, because of this expansion?

Mr. Strothman: I don't know that I could undertake to answer that question with any precision. I think, as you all know, a great many factors will enter into the rate structure of a commercial bank. I believe all we can do is to point out that the discount rate is one thing that will have an effect upon it. As far as the passing on of the rate, whether it is a fifth of that amount or the entire amount, you will find at times, I believe, that the variance will be very small, and at other times disproportionately large.

Question: I would like to address a question to Mr. Rolfe. You mentioned that the cost of credit to the car buyer had not gone up. In the sense of rates it has not, but the price of a car has gone up from $1000 to $2000, roughly, in the period you discussed. Customers have to borrow twice as much, which does increase the interest costs. Furthermore, if the rate had gone up as well as the amount borrowed, then the carrying charge would have gone up more than the price rise, is that correct? So to the consumer the cost has gone up.

Mr. Rolfe: I didn't say the cost, I said the rate.

Question: But I think you did refer to that as the cost of credit to the consumer.

Chairman Woodworth: I wanted to raise one question which I think is very fundamental, the question of whether consumer credit standards can be enforced by the lenders themselves. Several of the speakers in our various sessions have pointed to the fact that, at least on the fringes, the consumer credit is now being extended in a rather unsound manner. I think it has been pointed out that the average maturity of automobile paper has been lengthened from perhaps 24 months a couple of years ago to something like 29 months, and quite a number of dealers are now giving 36 to 40-month maturities. Down payment on a cash basis is about 15 per cent. This leads to buyers' equities in some cases probably less than wholesale prices.

That raises the question, do dealers need protection against themselves, and do consumers need protection under those conditions? The ideal method, it would seem, is for the industry to set standards of its own, but it certainly does raise a question at a time when risks are greatest, during a period of prosperity, that standards be set and not be deducted from too seriously. So I would like to raise the question, possibly with Mr. Rolfe, and I would also like to get Mr. Freeman's reaction. I am afraid we don't have time to expand on it, but would you care to comment to what extent you feel the industry can set its own standards and see that they are adhered to rather carefully?

Mr. Freeman: As I stated before, it has never been possible for com-

mercial banks or sales finance companies to agree on acceptable standards of soundness. However, I certainly do not believe we need any government agency to tell us how to set up some sort of standards. I believe the good old American free competitive enterprise system will take care of it. And if we are in the business, we let the other fellow take all the bum paper he wants, we don't care. We take what we consider to be good paper and he can have the rest of it. Eventually he will get his belly full of it. So we think it will take care of itself.

MR. ROLFE: There isn't much to be said now. But just in defense of CIT, I would like to say that some of our paper is good, or in other words, some of our best friends are our customers.

Seriously, I believe this: If you examine the period just past, you will see that in this rather insane hurly-burly there is a fine thread of logic that runs through it. The discovery of that logic is something I would like to know more about. What I am really saying is this: Terms began to slip, if you want to use that word, at the outset of the automobile recession in the end of 1953. The appearance of the '54 model was not an auspicious occasion. Automobile sales fell and automobile terms began to get worse. Everybody said, "Ha! You see what happens? When sales are hard they relax terms." Then terms continued to relax through 1954. Everybody said, "Ah huh! You see what we told you?"

But then something phenomenal happened. The 1955 model appeared and they sold more cars—they sold like hot cakes. The terms continued to slip. That hypothesis did not make sense. Then everybody said maybe they were selling them because the terms were slipping. Then in August 1955 the terms suddenly held on, but the boom went on for three or four months anyway.

What I am saying in a fairly long-winded way is that the credit cycle and the automobile sales cycle have not been co-terminus. Somewhere there is a logic to the credit cycle. I don't pretend to know what it is. I am sure that when the American Bankers Association warned its members that unless they moved away from a personal credit base back to a collateralized base they would run into trouble, that had an effect. I am sure that when the American Finance Conference warned its members and the industry generally that they had better watch this collateralization, that had an effect. I am sure that when Dr. Burns called the industry to Washington and said that was going on, it had an effect. I am sure when Martin did the same, that had an effect. Just why or what conditions made all these analyses effective I don't know. I think this is a very valid area for study: "What is the logic?"

I would like to say one more thing in answer to something you said yesterday. You made a very interesting observation. You said that the rise in consumer credit, if I may paraphrase, was potentially dangerous because it could have an aggravating effect in a down-turn, with the high level of debt outstanding. Is that a fair paraphrase?

Chairman Woodworth: I think so.

Mr. Rolfe: The interesting thing to me is, there is no doubt that what you say is true, that in a down-turn a high level of debt could have an aggravating effect. That is true not only of consumer debt but of any growth factory in the economy.

Let's talk about productivity for a minute. We all think we are a marvelous country because we increase our productivity every year; the output per manpower rises and the output is stronger than before. Productivity is a wonderful thing. It is like home and mother: we don't argue about it. However, if income and employment fell, if we had a recession, that very rise is productivity would be what you would call an aggravating factor. The rise in productivity would yield greater unemployment than would ensue without the productivity. Population is another growth factor that fits the same thing. We like a rising population, but with a higher population and a decline in income and employment, the rising population simply aggravates the situation because we have more unemployment.

Although population and productivity are potentially unsetting, nobody seriously proposes controlling population or controlling productivity. When we talk about productivity we keep our eye on the doughnut and not the hole. I am proposing we do the same with debt. When we talk about productivity we say we must keep employment and income high so that the productivity works for us and not against us. I think the same thing applies to debt. If income and employment remain high, this debt, which is a capital-acquiring mechanism as described yesterday, will work for us and not against us. It will never work against us unless the conditions prevail under which debt, productivity, population or any other growth factor work against us. The point is, it seems to me, that we should keep our focus of attention on the conditions which make these things valuable social contributions, rather than detriments.

Chairman Woodworth: It would seem that the results of your comment would put special emphasis on the over-all type of regulation of the economic system through monetary policies and fiscal policies and debt management policies rather than, if we can possibly avoid them, specific controls in certain areas such as consumer credit or perhaps even stock market credit or real estate credit.

Mr. Rogers: Mr. Chairman, may I make one comment and suggestion. Supplementing what Mr. Freeman and Mr. Rolfe said, and in response to your question, I might facetiously suggest that you read my speech on "Easy Credit Can Be Tough," in which I have gone into this equity business at some length.

A HOME ECONOMIST'S VIEW OF CONSUMER CREDIT AND THE AMERICAN FAMILY

JESSIE V. COLES

I am indeed happy that you chose consumer credit and the American family as the theme of your conference this year. First, I am happy because I believe it is all-important that the organizations and companies represented here be concerned with the American family. American families are the users of the wares, whether goods or credit, which you have to sell.

Second, I am selfishly glad because this theme has provided me the reason for my presence here. I am very glad to have the opportunity to look at credit, consumer credit through the eyes of those selling this credit. I am glad to have been invited as a home economist, because home economists, as you know, have for many years been concerned with the well being of families. However, I do not speak for all home economists; I speak just as one. I was glad to note that your program said "a home economist." Please do not blame home economists generally for what I may say today.

I do not know exactly why I am here. I do not know whether I am expected to deliver you a jolt or a shot in the arm. If you expect either you may well be disappointed. I assume, rather, that you are genuinely interested in what might be said by someone who has been interested for many years in consumers and in the promotion of their welfare and their status.

Perhaps I am here because, in looking at the American family, you appreciate the part woman plays as spender of the family income. I am sure that you appreciate the increasing importance of women as earners of money income. The first speaker yesterday referred to that fact. Also you must appreciate the effect of the earnings of women, particularly married women, on expenditures for consumer goods.

Before I go any further I want to set the apprehensions, of some of you at least, at rest. I believe that consumer credit is a useful tool. I do not think it is sinful to use credit, although I might say I think my parents did. I say that credit is a useful tool, but like all tools it must be kept in good usable condition, and it must be used correctly and efficiently else it is going to give us trouble. Our responsibility as educators and as sellers of credit is to see that this tool works. We do not in our every-day life throw a good tool away just because it does not work perfectly; rather, we try to do something about it. We try to repair it; or if necessary we get a new one.

Looking at this tool from the standpoint of the consumer, I would like to read you some statements from the talks yesterday which seemed significant to me, at the risk of being criticized for taking quotations or statements out of their context. These quotations may not be exact. If they are not please forgive me, and please do not think I am picking out any one person or any one group. The statements, I believe, represent points of view which are important today, when eyebrows are being lifted regarding the quantity, and the rising amount of consumer credit, and its effect on the American economy and the American family. I am going to leave the effect of this problem of credit on the American economy to better economists than I am. I will confine myself to the American family.

"The basic determinant of the level of indebtedness is the family."

"The American family is going to be a magnificent customer of the consumer credit industry."

"Our economy is dedicated to a high standard of living."

"Consumer credit is the civilized way of doing it."

"We have credit confidence in younger families who do not look forward to the responsibilities of supporting their parents. Younger couples are investing in durables and new goods to meet the standard of living."

"Is replacement more important than new purchases?"

"Larger proportions of new items in the standard of living are expensive items and will require more credit."

"The cost of borrowing money for use in consumer credit is rising."

"We will continue to have business cycles which will mean interruption in income, which will bring continued need and even increased need for installment loans."

"Poor risks are siphoned off to other sources of credit."

"It has not been possible for lenders, as yet, to agree on desirable and sound standards."

"Let the other fellow take the bad paper if he wants it."

Frankly I am somewhat disturbed about two implications in such statements as these. One is the emphasis which has been placed upon the *things*, the possessions, in this so-called standard of living. Durable goods have been referred to most frequently. The automobile has been with us all the time. The refrigerator, the television set, the new furniture, and so on, have also been with us.

I am sure that all of us as heads of families do realize that a stable family life, a sense of well-being, does not rest on the possession of things, these durable goods which have been referred to so often, and upon the non-durable goods mentioned less often. Many, though certainly not all, families are concerned with other aspects of their family life; the need for consideration of such values as health, security, training of the children as useful citizens and well adjusted family members. I might well ask the question as to whether they attain these values by straining their resources to secure possessions.

My second concern is the responsibility which is placed upon families for the wise use of the tool, consumer credit. Families certainly do have a responsibility for the wise use of consumer credit. I don't want to minimize their responsibility in this respect. However, I do not believe it is their responsibility alone. The sellers of goods and the sellers of credit also have responsibilities as great or greater than those of the family.

Although there are many points on which I would like to discuss the responsibilities of family and of seller, I am going to confine myself to two: First, the cost of credit, and second, the amount of credit used.

First, what are the responsibilities of families in respect to the cost of credit? Certainly consumers need to understand that credit is a service for which they must pay, just as they pay for the goods they buy through its use. They must understand that if they use credit to buy goods, they reduce their effective purchasing power by the amount of the cost of credit. According to *Fortune* it cost consumers $4 billion last year to buy this credit. You know better than I whether that is correct, but at least it is a very sizeable sum. I think it was mentioned in *Fortune* also that the cost of credit on an automobile is approximately the price of a television set, which illustrates well that if you use credit for the automobile, and the limits of your income are reached, you cannot get the television set. It is very true that many families do not understand this. They have not been exposed to the idea. Some are not interested in knowing, and even if they know some of them rationalize themselves into buying goods which, at the moment, certainly seem very important to them. Their "impatient ambition," as one speaker put it, may lead them in deeper and deeper. They may rationalize that it is a good budget device. (Incidentally, as a teacher of family finance and management of resources I almost see red when I hear this mentioned. There are certainly easier and cheaper ways of learning how to manage one's resources, to budget one's income.)

There is not only the need on the part of families to recognize that credit costs money, but the need on the part of consumers to know how much it costs. Few know how much credit costs them. Others, as I said, don't care, and on a wave of optimism would ignore it even if they did know. There is the need to know the sources of credit and the costs and the other services which come with the various sources. There is the charge account, the convenient credit, cash in 90 days, the revolving charge account, installment credit from this agency and that agency, this seller and that, and then there are cash loans, the installment loans from all kinds of agencies, good and bad as you well know.

Now I would like to discuss the responsibilities of sellers of goods and credit. Of course sellers of credit, I think, should assume responsibility for providing the credit at reasonable rates, assuming, of course, that they have a fair profit on their investment and a fair remuneration for the risks involved.

I would like to ask a question on one of the statements made here at

this conference. Does the statement, "The cost of borrowing money is increasing" mean higher costs for the consumers in buying credit? I would also like to remind you of what one of the speakers said this morning, that there is a difference between cost in terms of dollars, and rates. Certainly consumers are paying much more for their credit today in terms of dollars because of the increase in our price level, even though rates have stayed the same. However, I am concerned as to whether this means increase in rates.

I believe that sellers of credit also have responsibility for educating consumers in regard to these costs, to the fact that credit costs money, and how much it costs. To what extent have the sellers of credit attempted to do this? It is not difficult. There are many obvious reasons why credit costs money. There are many obvious reasons why consumer credit costs most than long-term bank loans. The tendency has been rather to minimize the cost, to pass it over, to change the subject if the consumer mentions it. How many sellers encourage consumers to find out what they are paying for credit? In most cases they make it difficult or impossible for the consumers to find out what they are paying in terms of some common denominator, because a common denominator is necessary if consumers are going to be able to compare costs and services from the different sources.

Installment sellers quote costs in terms of dollars, and they often confuse the issue by including insurance costs and the like. Most of us can figure out the rate of interest charged by a loan agency, but I wonder whether the ordinary consumer can? I looked for advertisements for loan agencies in the classified section of our telephone directory. I found one that says, $12.57 per month repays $100 loan in 9 months." Another has a little table that says, "Monthly payments including charges for $100 loan, $9.75 for 12 months, $6.97 for 18 months, $5.59 for 24 months." Then this one I see very frequently, "$50 costs only 29 cents for one week." In California these costs figure out to 2½ per cent a month, or 30 per cent a year. I would like to suggest that information be given to consumers regarding how much credit costs in terms of that common denominator, annual rate of interest. Certainly most consumers can understand that. They are accustomed to thinking of interest on their savings, their government bonds, their savings accounts in the banks. Why should they not be able to study the costs of consumer credit on the basis of the annual rate of interest they must pay?

I believe consumers can and should be taught to shop for credit on the same basis that they shop for goods, considering not only the costs, but the services, the reliability, and so on, of the various sources from which they may secure credit. As an educator I am concerned about the difficulty of teaching them this under the present circumstances, because sellers so often fail to quote their rates in such a way that consumers can compare costs.

The second point I wish to discuss is the responsibility of consumers and sellers as to the amount of debt which a family should assume at a given time. Remember, I approve of credit. I am concerned not with the use but with the abuse of credit. No doubt many families over-extend themselves in this question of the amount of credit, and they do it in spite of the attempts of some of your agencies to limit them. Why do they do this? There are several reasons, I think. One is their "impatient ambition" to possess goods. Another, their optimism regarding their economic future. And I should say there is another, the failure of sellers to prevent over-extension.

The younger families have been mentioned several times. We, of course, recognize that today there is a generation which has known nothing but prosperity. If someone attempts to remind them that economic conditions may not always be as they are today, or that they cannot, perhaps, look forward to a constantly rising income which is greater than the rise in consumer prices, they look at him with pity in their eyes, "Such an old fogey!"

I lived through the depression and some of you did. You and I know what it meant. These young people do not realize what it is not to be able to find a job. If they want a job they go out and get one. It may not always be the kind they want, but they get a job. Many of the families have two earners, as was said. It is true that two earners in a family make for greater stability in many ways, but what happens to this young family that has a standard of living based on two earners, if they have consumer debt based on two earners, and one of them loses a job, or must quit work?

Consumers are not free of the responsibility for determining the wise limit of credit, but sellers of goods and credit also have a responsibility. Is it only the consumer who is responsible for current credit buying? What about high pressure selling? Who is in large part responsible for the consumer's desire for these possessions? What about deliberate obsolescence of goods? What is the compulsion behind the new model of cars? (They may be essentially no different from the model we have.) What is the compulsion behind the pink refrigerator or the packaged kitchen? How many of these durable goods we have been hearing about the last few days are sold on the basis of unimportant characteristics, rather than on the basis of their real utility? And how many families are sold on these things and find that they really do not have very durable goods?

To what extent do sellers of this credit, in their zeal for getting business, assist consumers in limiting their credit? Do many not rationalize that their chance of getting paid off is as good as that of the other fellow, or "let the other fellow take the poor risk"? And unfortunately in some states today there is always some other fellow who will take the risk, but at what rate of interest?

Now we come to another question, the relation of total credit outstanding to the total disposable income. We are concerned as to whether this relationship at present is safe and satisfactory in the aggregate. Who

knows what is safe and satisfactory? But let me say this: that even if this present relationship is sound and satisfactory in the aggregate, I am concerned about the American families who will inevitably be caught in the credit net, if even a minor recession sets in. What will happen to families with payments due on the house, the automobile, the refrigerator, the living room, the furniture, ad infinitum?

The question has also been raised as to the size of the equity which consumers have in their goods. Probably most of you saw the picture in *Life* last fall, showing all the things the family had bought, such as the house, the refrigerator, the television, and all the equipment in the house. Then just below that was a picture of the family sitting among the possessions which it actually owned, which really represented their equity in these durable goods. There was the foundation of the house, the four wheels of the automobile, a couple of chairs, a baby crib, television set, and that was about it. Many of these families do not have liquid assets. They do not have equity. They do not have liquid assets to meet such emergencies as may arise, even with a minor recession. You know as well as I do that the number of spending units with no liquid assets has been increasing and the median holdings have been declining. What happens? They lose what equities they have, and then instead of a rising standard of living they have almost none at all.

On the other hand, what about those who are able to tighten their belts and pay off their debts? I have heard that mentioned a lot: "As long as consumers are able to pay off their debts everything is fine." What happens, though, if they are not able to tighten their belts and pay off the debts? What may happen to their expenditures for adequate food? What may result from poor food, inadequate medical care, and the like? What may be the effect of this economic condition on their sense of well-being, worry and uncertainty replacing satisfactions which arise with possession of goods?

Let's consider these families when we consider consumer credit and the American family in perspective.

PANEL DISCUSSION

Paul L. Selby

This panel on the home economist's viewpoint comes entirely too late, not only too late today on this program, but too late in the years we have been discussing consumer credit. The viewpoint of the home economist is far overdue in our thinking about the role and function and utility of consumer credit.

What would I do about this subject if I were a home economist? I am going to imagine that I am a home economist for the next three minutes and look at the American home as I think I would like to look at it if I were that home economist. I see the modern consumer credit picture hang-

ing in that home. What do I think about it? What should we teach young people about it?

First, in my thinking, I would want to take two trips, one in time and the other in space. The first trip for the home economist would be to go back fifty years for a good look at the average American home before the widespread use of consumer credit in America. I lived in one of those homes fifty years ago, on a farm near a small town. Our folks did not believe in consumer credit. The town folks didn't either. In memory I can still see the coal stove, the spring house and the hand pump, the women bending over washboards. And I can still feel the sting of my knuckles from breaking the ice in the water pail, in the wash basin. And typhoid fever was a habit. I had it, too, in those days before modern sanitation. I know what you are talking about now, all you Ph.D.s. They didn't have those gadgets in those days. They didn't have the things that make our standard of living. I concede that.

Then I suggest that you take the other trip, in these days when we have knowledge of all of the things that make for efficiency, ease and comfort, and allow time for education and religion and recreation and culture, that take out the back-bending drudgery—come with me, if you will, to contemporary Spain and France and other countries in free Europe. Visit their middle-class homes, in these days, when the world knows about all these things that you talk about, and when we are so much interested in release from drudgery so that we may enjoy the cultural things of life. Study their economic levels, their standards of living, in the light of the living standards we take so much for granted in America, with our widespread use of consumer credit and consumer finance.

Then after these two trips I would have a good talk with myself about what I would teach young people in regard to consumer credit. Of course, everyone expects home economics teachers to orient girls about home making, infant care, dietary principles, table settings and home furnishings, color harmony and modern appliances, budgeting and health and suburban living—with a car, of course. We are enthusiastic about all of these elements of better living in our high level environment. But all these things assume purchasing power in the family unit at a time when the young couples are starting out together. Starting incomes are lower than at any time later in the life cycle, at least until retirement and social security. For some reason, you know, the average age of marriage has come down from 26 to 21 years in the last 15 years. What should these young couples know about money management and budgeting? What is the constructive use of personal credit and what are the dangers of excessive dosage of this catalyst?

A working knowledge of our free opportunity system of capital enterprise is essential and rather widely understood in its general principles, but we find too little understanding of the dependence of our mass production, mass distribution and mass consumption system upon consumer credit. For

example, how many among us, teachers included, realize that for more than 25 years it has required as much or more short- and intermediate-term consumer credit to finance consumers as all the short-term commercial bank loan credit to finance business in the production and distribution of goods and services? Without advanced consumer demand, since adequate consumer credit has made advanced consumer demand possible, we could never have achieved nor could we sustain such full employment, high consumer incomes, nor could our system have paid for the research and automation to bring better quality goods at lowering prices.

Let us freely grant that there are some foolish granters and users of consumer credit. But let us as freely concede that the over-all record is good. I think Mr. Rolfe made a marvelous point here, that you have to look at the whole picture. Delinquencies and losses are at a record low, even on the high plateau. And I dare say to you that never in the history of any time in America, nor of any time in the history of any country in the world, has the average consumer had as much liquid assets and as much of privately owned homes and assets and gadgets and culture and education and religion as the average American family has in these days of high-level consumer credit living.

So I say that as a home economics teacher I would go into the homes of America and see how drudgery has been eliminated with modern appliances—which have dispensed with maid service, for the same cost. Note how the television set keeps the evening recreation focused at home, with the family together instead of going out "on the town" at great expense. See how transportation time is saved with the family car.

Look at these things and then tell me, if you will, that we should go back to the "good old days" of waiting, saving cash and waiting, delaying marriage, delaying comforts or doing without the things that make for efficient living in this modern age. I suggest, too, that we home economics teachers should remember that we are all in this economic pattern together.

Colston E. Warne

Like Calvin Coolidge, I hope I may, with this time limitation, cultivate the New England characteristic of brevity and understatement.

Item 1: I am persuaded that a significant factor in our current debt picture is high pressure selling and equipping of homes, which has been raised to explosive levels through the use of government-guaranteed credit. The wide home ownership of today, thus promoted, appears to offer other sellers security. Installment debts may be based upon existing equities in homes, against which liens and other claims may be placed to force debt collection.

The extension of protection to lenders under the federal law, coupled with the failure adequately to protect the borrowing public, has in my estimation promoted mounting irresponsibility on the part of fringe operators. There still exists, despite the changes in Title I, too much in the way

of irresponsible practices within the scope of governmentally-guaranteed credit. In this area I look for future difficulties.

Item 2: I am persuaded that there is much more need for common honesty and self-discipline than the installment business has had heretofore. Too large a segment of the buying public has been turned into victims for sharpsters. In fact, large segments of our population, lacking social experience and commercial sophistication, have through ten years of full employment been recently vaulted into the so-called "credit-standing incomes." They have been introduced to a new coinage: their signature on a conditional sales contract, but without adequate knowledge of how to use it.

We have had a siege of what was described this morning as "blitz merchandising." Is it too much to ask lending businesses to engage in voluntary attempts at full disclosure? And here may I endorse Dr. Coles' suggestion of accurate statements of true interest rates on all contracts, clear and explicit itemization of all charges, a policing of the fringe operators who discredit the business, and the elimination of varying types of contract which may emerge from under the desk, depending upon the individual who happens to be the potential purchaser.

Item 3: I am persuaded that there is a need for a better legal break for consumers. Having attended the recent meetings in New York held by the Consumer Counsel of New York State, it seems to me that such elementary things as legislation in forbidding blank spaces in motor vehicle sales finance contracts, the prohibition of compulsory tie-in insurance sales, ceilings on installment credit rates at reasonable levels, rules requiring full disclosure of signer's rights and obligations, required refunds when you pay ahead of schedule, limitation on the amount of repossession costs imposed on installment defaulting purchasers, the making of financial institutions responsible for the condition and quality of goods sold under the contract and other items of that type, are requisite. And if such self-policing is not adequate, then we are bound to have legislation emerging in this field to hold down the abusive practices. In fact, I think we need to develop a parallel of the full disclosure of the SEC in this whole installment loan field.

Item 4: I am persuaded that consumers themselves need a great deal of education in this field. Consumers need a kind of self-imposed Regulation W. A recent Illinois survey showed that two-thirds of the users of installment credit did not know the amount of their carrying charges or the interest rate on their most recent installment purchases—when that is true, something is wrong.

I do not object to technical innovation. In fact, I think technical innovation may proceed rapidly even in the absence of too extensive installment contracts. However, the point is to have consumers educated as to the merits and demerits of installment use, as to where it is desirable and where it is not desirable.

It is important that consumers build a stout resistance to those who

plead for over-extension of commitments. If a wise consumer can get substantially more goods by waiting a year, he may advisedly wait and resist the blandishments of ardent sellers. That consumers nowadays are paying up well is no test that they are not, in the aggregate, oversold. All that the present low level of repossession proves, as I see it, is that most people are basically honest and will meet their commitments, even though these may seriously dislocate other budget items, and often nutrition. A durable goods spree instituted under high-pressure campaigns may sell goods. From a consumer's standpoint, however, the request or urgent demand to purchase should be looked at with a cold, calculating eye, weighing all factors.

Item 5: I am persuaded that, despite the affirmation this morning, there still is a lack of effective competition in the consumer credit field. There are plenty of agencies, yes, but how much shopping around is there? What divergence is there in charges, if all the reports I have read and heard are true? In the aggregate the consumer is paying, for much of the credit he receives, an excessive cost, as is shown in the totals revealed in the *Fortune* article in March. Some kind of more efficient credit service is about due, some break-through in the existing rates. Whether revolving loan accounts will do the trick I don't know, but I do suggest that the current cost picture is more than it should be for the consumer.

In summary: I think our nation has gone a bit wild in buying on newly-discovered, relatively-unrestrained credit. I am not a Puritan, yet I am a Yankee. I just cannot accept the theory voiced by a recent advertising agency which would put hardware stores, drug stores, variety chains, mail order houses, apparel, theater chains, gasoline and service stations, travel, food, and department stores all on a pay-as-you-use-it basis, or more accurately, pay-after-you-use-it basis.

If this is all a feature of boom employment, I ask the concluding question: "What lies ahead when the boom slackens?"

MARGARET HUTCHINS

I shall talk from the standpoint of a person who is interested in the education of teachers, who in turn are interested in the education of the consumer about whom you are concerned.

Yesterday's and today's programs have strengthened my conviction that regardless of any other controls, control through self-discipline of the consumer is essential. Education is basic to the development of this ability for intelligent self-control. We who are engaged in professional education have the responsibility of seeing that young people have the type of education that will give them facts and understanding, and that will result in the intelligent approach of the consumer toward credit.

It seems to me that there are three sources of education for the consumer. At the risk of oversimplifying the situation I should like to tell you what I think these sources are.

The first, of course, is the family, or perhaps I should say the parents,

who by the process of their own experiences and possibly by their own education have some ability to help the young people see the consumer credit picture in its entirety. The second source is the school, particularly the secondary school, inasmuch as many of our boys and girls do not get beyond the secondary school stage. The third source is the consumer organizations which most of you represent. In my judgment we all have to pull together. The teachers cannot do it alone. Certainly the family cannot do it alone, without your help and the help that educators can give.

I should like to point out that in the secondary education field, home economists are only one source of help to the youngsters. The social studies area presents a big field for education for consumer credit, as does mathematics, if you take mathematics in its broad sense.

I believe young people need certain abilities and understandings. They need an understanding that different people have different values. Each of us, as an individual and as a family member, needs to be aware of his values and use them as guides in choice making. Young people need judgment to withstand the pressures of television, radio, super-salesmanship, until they have some basis for selecting goods and services that will yield the greatest satisfaction for themselves and their families. They need the willingness not to jeopardize peace of mind and values that are essential to the emotional and physical health of the family, for the mere acquisition of material goods and services. They need respect for the maturity and experience of others to whom they can go for advice. They need the ability to discriminate between reputable credit institutions such as you represent and those which are not reputable, or at least the judgment to seek advice concerning them.

Young people need an understanding of various ways of buying goods and services—cash, charge accounts, installment buying, personal loans, etc. They should know that if and when they do apply for credit, they need to read a contract intelligently so that they are aware of what they are paying for credit, so that they are sure that it is worth the price, and so that they understand the implications of the negotiations into which they are entering.

I am convinced that we can do better than we are now doing with education of adolescents and young people, both men and women who are in our schools and colleges. We can do better in our education of out-of-school youth and adults. However, we can do better only through cooperative effort of the family, the educators and the consumer organizations.

We educators, and especially home economics educators, are important to you. You are important to us. We need to recognize that we have a goal in common, and that goal is physically, emotionally, mentally sound family life. I hope that in some of our communities where both teacher education institutions and consumer credit institutions are represented, some of us can get together and demonstrate that we can work together on this common problem.

GEARING INDUSTRY FOR A HIGHER STANDARD OF FAMILY LIVING

Ray R. Eppert

What I would like to do today is to make certain observations regarding the problems which appear to be facing business, particularly in the years which lie ahead, then to discuss briefly where we are, where we think we are going, and specifically, how we expect to get there.

I am sure you would all agree that any conference on consumer credit must consider, and consider very carefully, the status of business in industry. Why? For several reasons. That very status of business in industry to a large extent determines the credit problems and their scope; and certainly it suggests or even dictates the actions which should be taken.

The objective of the American system I think is very simple and very fundamental: To attain progressively higher living standards. I know that during your conference you have been given a very full report on and forecast of the economy which lies ahead of us. I think you will all agree that we are definitely on the verge of a break-through to an even higher plateau. But I would remind you that that will not be accomplished just by wishful thinking, or merely because it is possible to have a break-through.

The future offers a tremendous opportunity, but it offers an opportunity both for success and failure. We must never forget that. I would like to remind this audience also that of all the freedoms we have in America, I think one of the greatest freedoms is our freedom to fail, our freedom to take a chance. There is not that same freedom everywhere. A short time ago, speaking of the future, one economist stated it this way: "Either we will attain a higher standard of living or a more spectacular death." I think that is probably the perfect hedge on the long-term economic forecast.

The factor of obsolescence, as you know, has always been important in facilities, in equipment, and in progress. Today this factor must be recognized in connection with management. That may seem like a strange statement, but let me amplify it. I think our future success in business and industry definitely demands the complete discarding of obsolete thinking in management. I would state it this way: All of us, certainly, should at least try to keep permanent anti-freeze in our minds and never allow our approach to the problem, whatever that problem may be, to become frozen or static. We circumscribe our success and our degree of potential success whenever we do.

I would now like to ask each of you, if you will, for the next 15 or 20 minutes to assume the role of the chief executive officer of a corporation, in any line of business or any industry. Let us explore together the future, and try to define specifically the part that business and industry must play if America's economic dream is to come true. It was a very wise man, I think, who said it is far better to have a diagnosis and a cure than an autopsy and a verdict. One thing is certain, and I am sure we all agree: that we must look forward and not backward.

Suppose we start by taking a look at tomorrow's economy. Let us consider the elements first which determine just what the standard of living is at the moment. Let me state it this way: If the percentage increase in disposable income is greater than the percentage change in gross national product, we have merely, of course, achieved a degree of inflation. If the two are in balance we have merely held our own. If the percentage increase of gross national product and disposable income are less than the percentage increase of the labor force, the result is that our living standards are lower. And of course the ideal: If the percentage increases of gross national product and disposable income are greater than the percentage increase in the labor force, automatically our living standards are raised.

Now what about tomorrow's economy? I noticed on your program you had listed a discussion of "America—1965." I do not want to go back over any ground that has already been covered, but for the purpose of our discussion today I would like to refer to just four indices. These are official in the sense that they were taken bodily from the report made by the Congressional Joint Committee on the Economic Report for the 83rd Congress, forecasting America's economic position and level as of the year 1965. Incidentally, these figures are stated in constant dollars, 1953 dollars to be exact, so the report does not provide for any further inflationary content in the monetary unit.

These four indices I speak of are vitally important, I think, in so far as the standard of living for the family and for the individual is concerned, and certainly for the standard of living for business and industry. Too often we overlook one thing: that business and industry must attain a high standard of living, a high standard of operating, if you please, and a healthy phase of operating, if we are going to achieve the high standard on the individual and family front.

Gross national product is forecast to be at a level of $535 billion in 1965. That is a lot of dollars. What does it mean? It means a 47 per cent increase in gross national product, in the physical output of goods and services in this country; almost half again what it is now. You cannot have gross national product unless it is going to be distributed, unless it is going to be bought. Therefore, it has to be supported with buying power, disposable income.

Disposable income is forecast to be at a level of $380 billion, and

consumer spending up 55 per cent, to a level of $357 billion. That is up 55 per cent against a disposable income increase of 52 per cent, indicating a lesser rate of saving than the increase in disposable income.

While this is forecast to take place, what about the labor force? This is not something that requires gazing into a crystal ball. This particular index is based on an exact science, because you and I know that everyone who will be working or capable of work in 1965 is presently alive. Any changes will be due to the way the age brackets happen to hit. The labor force in 1965 will be only 18 per cent greater than it is now.

There you have a gross national product up 47 per cent, disposable income up 52 per cent, and a labor force up 18 per cent. That spells a real challenge, I think, and certainly a real opportunity. It holds forth the promise of a very much better standard of living than we have today. And still, with these forecasts, we found in Washington, last October, a Congressional committee under Senator Patman trying to determine whether automation was a blessing or a threat.

What is automation? Automation is a lot of things. Primarily and particularly it is nothing more nor less than this generation's catch word for something that has been going on in this country for the last hundred years. I think too often the word "automation" has done a lot of harm. We conjure up in our minds a Frankenstein machine of some kind with a little fellow sitting over in a corner just pushing buttons, and with no one else around. Well, it isn't necessarily that. Automation can be a lot of things, as I said a moment ago. It can be a new and better method, a better technique. It can be a new idea, a new concept.

What is a self-serve market if that is not automation at the retail level? How does the merchandise move from the shelves into the hands of the customer? What is a dial telephone? What is a vending machine at the distribution or customer level? That is automation. So automation can be a lot of things.

However, I would remind you of one thing: that if we are to attain these economic goals that have been forecast, and I think we can since they are conservative—as a matter of fact, many economists today are now taking issue with the forecasts made two years ago, saying they are too low—if we achieve roughly a 50 per cent increase in the physical output of goods and services in this country with only an 18 per cent increase in the labor force, my eighth grade economics tells me one thing: We have to work smarter. I know we are not going to work harder, so we have to work smarter.

Automation per se, or the degree of automation, the technolgical improvements we are able to effect between now and then, is vital if we are going to attain those goals; and only if we attain those goals will we have the living standards that we want. Automation: Better methods, better techniques, better equipment in the production process, and not just in

production but in the distribution process as well, in fact in every activity of business and industry.

I would like to take issue at this point with an old traditional approach which has been used, I think, historically more or less as a yardstick to measure management: namely, low overhead rates. Traditionally I think it has been generally accepted that a low overhead rate meant good management. However, there is a new school of thought coming into the picture today. That school of thought believes that a low overhead rate may be a warning. It may be a sign, not of good management, but of weak management. It may mean, if you please, that there is too much direct labor in the process that is being followed. It may mean poor methods. It may mean obsolete tools. It may be because the company is not investing enough in the individual workman or in the future.

In other words, what I am suggesting is that it may be necessary to remain competitive to increase overhead rates. Any man or woman in this room could go into a plant that had a very high overhead rate and could cut that overhead rate very easily. All you would have to do would be to send back the automatic screw machine and bring back the hand screw machine, and reinstall the obsolete methods which were discarded several months ago. You will cut the overhead. You may not be in business very long, but you will cut the overhead rate.

I am saying that as we employ greater automation, more efficient equipment, more efficient methods and techniques, we are increasing the fire power of direct labor, with the net result that our overhead shows an increase.

A perfect analogy of that is the flight crew of a B-52 strategic bomber. That crew would be the direct labor involved in delivering the merchandise. But think of the hundreds and hundreds of support personnel necessary to put that flight in the air and on the target.

All I am suggesting is that you, as the chief executive officer of your corporation, should take a good close look, and not accept the fact that a low overhead rate is good, or that a high overhead rate is good or bad, but rather, analyze to be sure you are being competitive right down the line in everything you are doing, that you are taking full advantage of those things that are available to you today.

Certainly one of the things business must do today is to plan. I don't mean just on a short-term basis; I mean on a long-term basis as well. If I may speak in a personal sense for a moment about our own company: In 1947 we took what we thought was a very great calculated risk. We thought we were going way out on a limb in a material expansion of facilities, organization, research, engineering, development, right across the board. In 1955 we reported roughly 500 per cent over the performance of 1947. But do you know the error? We were too conservative. I think if there is any one thing we must do in looking ahead, if we are to take full advantage of the opportunity and if we are going to meet the challenge as

it should be met, we must make certain that we are sighting high enough on the target. Whether we like it or not, the target is a big one, and we must sight high enough or we will wind up failing to take full advantage of the situation that is available to us.

I would like to say that the market we are selling today and the market you are financing today is not static. I don't have to tell you that. It is anything but static, in size or in buying power. By size, of course, I am referring to the tremendous increases taking place in the population. We will have 190 million people in 1965 in the United States. More than 400 new Americans are being born every hour of every day of every week of every month. That is 400 new customers, more than six a minute. I don't think even General Motors has reached that rate of production.

Of interest to business, of course, are some of the changes that will take place in the composition of the population. The big increases are coming in the older people, age 65 and above, and the younger people, 20 and below. That means that such factors as where you are going to sell it, how you are going to package it, and all of the facets of the distributing process have to be considered in connection with those changes.

When you pick up a newspaper and read the financial pages you see good news. Corporate profits are good, make no mistake about it; they are very satisfactory. But when you skip the headlines and look at the details of the operating statements you will find something else. You will find that those profits, while satisfactory, are not predicated, with few exceptions, on wide profit margins, but rather, on an all-time-high level of revenue.

If there is any one fact, any one nightmare—I use that advisedly—that disturbs the dreams of top management, it is the horrible thought, "What would happen to us in the next quarter or the quarter after that if our sales suddenly dropped 10, 20 or 30 per cent?" I don't have to tell you that it would not have a comparable effect, percentage effect, ratio effect on profits. In most instances they would be wiped out. Let me say it this way: Business must grow or die, and I want to emphasize that fundamental fact. Whether we like it or not, a status quo in the revenue front in most businesses today means at least partial liquidation.

With that stage setting, let us take a look at some of the specific management problems. We mentioned planning. We mentioned the need for growth. In planning we must consider and forecast our indicated actions and needs in connection with expansion, capital expenditures, and working capital requirements. Greater accuracy in management decisions is necessary. Remember that shrinking profit margin. Whenever you have that set of conditions, automatically the reserve that can be allowed for management error in decision is decreased. Management today, I would remind you, is working with closer tolerances than obtained even two or three years ago, and there is no indication that those tolerances are going to be greater; they are going to be tighter and more exacting.

I am sure that in this program of planning for the future and taking

full advantage of it, one of the first things you would do would be to check the organization, check your team. If you are going to grow you have got to get out of the category of a one-man operation, a bottleneck operation. Therefore you would check to see what kind of delegation of responsibility, authority and accountability you have made. I put all three of those things together for this reason: Too often we delegate the responsibility, and sometimes we tack accountability onto it, but at the same time we tie the man's hands by not giving him authority. There is an old belief on the part of some people that when we delegate responsibility and authority and accountability we are loosening up the operation. Actually the direct opposite is the result. We tighten up the operation, because for example, I know that instead of just initialling something without any thought or care (if it is wrong it will be stopped somewhere up the line) when I am responsible for it I must know a lot more about it and consider it in every good business sense. So we would check our organization to be sure we had delegated both authority and responsibility.

Then I think it is a good idea to make sure the man knows you have delegated it. You may think you have delegated authority and responsibility, but if the man you are depending upon to carry through does not know it, then you have not delegated it. You have merely taken something out of your operating picture. What is a good way to tell him? You might say by talking to Joe, to make sure he understands it. I would recommend a full use of adequate job descriptions. Spell it right out, exactly what the responsibility, the authority and the accountability are. A job description takes a lot of time to prepare if it is prepared right, but a job description is nothing more nor less than an informal performance contract, and it does tighten up the operation.

You check on training and on the executive development program. You check to make certain you have a man behind the man you are developing; in other words, strength in depth, because that is the only way you can grow. You have to have substitutes on the bench who can take over additional responsibility as the need for that accrues because of the business growth.

You would also study to determine the advisability of diversification. I would remind you of the diversification that is going on today; business is going into other businesses. Many of the mergers and acquisitions you are reading about stem not merely from a desire to be bigger, but rather, stem from the necessity of diversification in order to save the business. Let me explain what I mean by that. We need a study to determine the position of our industry. Is it a dynamic industry? Is it still a growth industry? Has it passed its cycle and is it now on the down-swing? In other words, the total economy may be good, but there will always be soft spots in the economy. Not all industries are travelling at the same level nor occupying the same position in their particular life. The thing you have to determine is, "Do you have the opportunity for growth in your industry?" If not, then

you had better do one of two things: Decide right now that sooner or later you will be at least in partial liquidation, or think in terms of growth through diversification. That is what I meant a moment ago when I said a lot of the acquisitions, the mergers that are going on today, stem from a number of causes. It may be because of a need for growth, it may be because of a diversification problem, it may be in order to achieve a more adequate competitive position, and it may be—and too often it is—because the concern being taken over did not develop management, strength in depth, and reached the end of the rope. By the same token, it may be to acquire management that is not available in the business. Those are some of the reasons why mergers go on. They are all good, valid reasons.

While we are on the subject of planning I would like to suggest that one important function in any business is budgeting. However, I think orthodox budgeting, industrial budgeting, is not necessarily good profit planning. In our own business—and I think more and more concerns are doing this—we have what we call profit planning rather than budgeting. We start with the end results. You have to start with a forecast of what revenue objectives you feel you can satisfactorily set and attain. Then you set the profit objectives you want. Then you work back from the end results, via the budget and programs, to the budget that you need in order to execute such a program.

What I am suggesting is this: In line-by-line budgeting operations, take the sales department as an illustration. That forecast is predicated on one thing: "What did we spend last year for 101? What are they asking for it this year? Can we get a few dollars out of that?" You know and I know the profit program involves spending more money. It is not a matter of seeing whether we can hold the line or reduce; it is a matter of what program we should implement and how to achieve the profit results. Then we work back from that. In many instances the budget is much bigger than it was for the same thing the year before, because we did not need to do that thing to the same extent. That is the difference, basically, between orthodox budgeting and profit planning.

I think all of us, as respective officers of our corporations, should take a good close look and a hard one at the marketing operation. We check organization, assignments, recruiting program, training program. Are we hiring *the* men for the business, or just hiring men? The specifications may be entirely different in marketing for different lines of business, so we should recruit the men we need for our business. We check our channels of distribution. Are they adequate, or have we become static? Have we followed the same old road all the time? Are there better ways of doing it? Are there ways that could be used in addition to those we are now using.

We give some consideration to the labor content in distribution. You know, we hear a lot about labor content in production. How often do you hear of labor content in distribution? You will hear more about it, I am sure, because one of the big costs in the price of the market-place is the

cost of distribution, although there again I don't think we should ever talk about the cost of distribution without pointing up the value added by distribution, just as we point up the value added by manufacturing.

I would like to say in connection with marketing that the past records in your corporation do not mean a thing. They don't mean a thing for the simple reason, as pointed out a moment ago, that we are not selling this year the same market we sold last year. Surely we want to know that we are trending in the right direction, but I would not take a past record too seriously. As a matter of fact, if we do not increase our revenue position this year, we have not even held our own competitively, because the market is a bigger market. Too often in marketing expense and marketing costs we confuse dollars. We see a certain activity, a certain expense, and speaking from a dollar standpoint this has increased numerically. Our expense has gone up. Has it? What about the cost? The cost is the ratio that expense may bear to the revenue. You and I know that one of the best ways to decrease sales costs, sometimes, is to increase expense.

Research and engineering. That is one field that, as chief executive officer, you would not overlook. I heard the word "obsolescence" used this morning in the last panel. Whether we like it or not, product life in this country is shortening. I am not referring just to durable goods; consumer goods also enter into this product life picture, this shortened life. Incidentally, someone once defined durable goods as those products which would last longer than the installments. Convenience, packaging, and all that, are tending to bring new products into the market, new food lines, for example, and almost every other line you want to mention. We do have to recognize that product life is shortening, and that means one thing: If you are to remain competitive you have got to shorten your time on product development and release, at least as much as your competitors do. If they develop a faster tempo in research, engineering, and development, that is, getting things into production faster than you do, it means that they will have the market for the product.

What I am trying to say is this: I think one of the things we want to make certain of in our respective businesses is that we have done everything possible to telescope the times. Whereas we used to work in a number of different steps: research, development engineering, design engineering, industrial engineering, then production, we are now putting project teams together. The moment the technique is developed to a certain point and the development to a certain point, then design engineering comes in, and industrial engineering. So you are working toward what end? Not an engineering model, which will then be changed by design and then by industrial engineering: you are trying to work toward a final production model, with the result that you have telescoped the times.

In speaking of products I don't have to tell you that it is very important to know what we are building, and that we are building the right kind of a product, a product that will be accepted after we build it. That brings up

the point of market research. Too often we decide too much by our own internal market research. It is very difficult to be objective. It is easy to know so much about your business that you feel you know all the answers. We found ourselves in direct conflict in our thinking not so long ago, with an objective market research made by our outside counsel on a product that we have had in our business for seventy years. We thought we knew all the answers. Their findings were the direct antithesis of our own thinking, and they were right, as was subsequently proven. I do think you have a responsibility, as chief executive officer of your corporation, to determine as best you can in advance that the product you contemplate is what the customer wants, that it is in the form he wants it, that it is packaged the way he wants it, that you are going to make it available to him at the time and the place he wants it. Those things are all-important.

We have touched a lot of bases here very briefly. All of them are important. Let me underscore this: Not one of them can be ignored. The future can be a big headache or a lot of fun. I think it will be exactly what we make it. But one thing I think is both obvious and certain, and that is this: Management has the greatest opportunity in history to achieve either great success or colossal failure.

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"Credit Standings of Occupational Groups." Robert S. Hancock. *Current Economic Comment.* University of Illinois, Champaign-Urbana, Ill. Vol. 14, No. 3, Aug., 1952. (Reprinted in *Time Sales Financing,* Vol. 16, No. 15, Nov., 1952. American Finance Conference, 176 W. Adams St., Chicago 3, Ill.)

"Dealers and Their Finance Connections." Paul H. Brown. *Time Sales Financing.* Vol. 18, No. 11 and 12, Nov.-Dec., 1954. American Finance Conference, 176 W. Adams St., Chicago 3, Ill.

"A Dealer Talks to the Bankers." Frank H. Yarnall. *Time Sales Financing.* Mar. 22, 1955. Vol. 19, No. 4, April, 1955. American Finance Conference, 176 W. Adams St., Chicago 3, Ill.

"Don't Be Ashamed of Buying 'On Time.'" *American Home,* May, 1955. (Reprinted by the American Finance Conference, 176 W. Adams St., Chicago 3, Ill.)

"Down Payments and Terms." *Time Sales Financing.* Vol. 19, No. 7, July, 1955. American Finance Conference, 176 W. Adams St., Chicago 3, Ill.

"The Economics of Consumer Credit." Robert Bartels. *Time Sales Financing.* Vol. 18, No. 9, Sept., 1954. American Finance Conference, 176 W. Adams St., Chicago 3, Ill.

"Educating New Executives." *Time Sales Financing.* Vol. 18, No. 4, April, 1954. American Finance Conference, 176 W. Adams St., Chicago 3, Ill.

"Federal Reserve Official Against Selective Consumer Credit Rein." Delos C. Johns, *Consumer Finance News.* Vol. 39, No. 10, April, 1955. National Consumer Finance Association, 315 Bowen Bldg., Washington 5, D. C.

"Finance Charges—Pre-Payments and Rebates—Collections and Repossessions." *Time Sales Financing.* Vol. 19, No. 10, Oct., 1955. American Finance Conference, 176 W. Adams St., Chicago 3, Ill.

"How to Budget Family's Installment Purchasing." Thomas W. Rogers, Reprint from *Sales Credit News.* Vol. 3, No. 4, July, 1953. American Finance Conference, 176 W. Adams St., Chicago 3, Ill.

"Good Letters—Key to Collections." *Time Sales Financing.* Vol. 16, No. 8, April, 1952. Part II. American Finance Conference, 176 W. Adams St., Chicago 3, Ill.

"How Much is Too Much Private Debt." Thomas W. Rogers. *Time Sales Financing.* Vol. 17, No. 5, May, 1953. American Finance Conference, 176 W. Adams St., Chicago 3, Ill.

"Income Determination for Sales Finance Companies." Robert W. Johnson and Robert H. Gregory. *Time Sales Financing.* Vol. 17, No. 9, Sept., 1953. American Finance Conference, 176 W. Adams St., Chicago 3, Ill. (Reprinted from *Journal of Business,* April, 1953.)

"Installment Credit and Automobile Ownership." Thomas W. Rogers. *Time Sales Financing.* Vol. 16, No. 12, Aug., 1952. American Finance Conference, 176 W. Adams St., Chicago 3, Ill.

"Installment Credit Principles Reconsidered." Clyde Wm. Phelps. *Journal of Marketing.* Jan., 1938, pp. 219-225. American Marketing Association, 1525 E. 53rd St., Chicago 15, Ill.

"Installment Credit Enters New Field." *Tide.* Jan. 28, 1956. 2160 Patterson St., Cincinnati 22, Ohio.

"Keep a Weather Eye on Your Ratios." R. B. Scott. *Time Sales Financing.* Vol. 16, No. 10, June, 1952. American Finance Conference, 176 W. Adams St., Chicago 3, Ill.

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"Monopolistic and Imperfect Competition in Consumer Loans." Clyde Wm. Phelps. *Journal of Marketing.* April, 1944. American Marketing Association, 1525 E. 53rd St., Chicago 15, Ill.

"New Horizons for Consumer Credit." Lawrence C. Lockley, *Consumer Finance News.* Vol. 39, No. 10, April, 1955. National Consumer Finance Association, 315 Bowen Bldg., Washington 5, D. C.

"New Trends in Retail Credit." A. L. Trotta. *Changing Patterns in Retailing.* John W. Wingate and Arnold Corbin. Part VIII. Section C, Chapter 43. Richard D. Irwin, Inc., Homewood, Ill.

"The Outlook for Consumer Durables and Consumer Credit." Ernst A. Dauer. *Consumer Finance News.* Vol. 39, No. 7, Jan. 1955. National Consumer Finance Association, 315 Bowen Bldg., Washington 5, D. C.

"Past-Due Notices—The Three Basic Steps." *Time Sales Financing.* Vol. 16, No. 7, March, 1952. Part I. American Finance Conference, 176 W. Adams St., Chicago 3, Ill.

"A Practical Lesson in Consumer Credit." Robert W. Johnson. *Consumer Finance News.* Vol. 39, No. 1, July, 1954. National Consumer Finance Association, 315 Bowen Bldg., Washington 5, D. C.

"Raising Capital Funds Through the Use of Debentures." Emil E. Kostner. *Time Sales Financing.* Vol. 14, No. 11, July, 1950. American Finance Conference, 176 W. Adams St., Chicago 3, Ill.

"The Role of Business in the Improvement of Public Education." John L. Mentz. *Consumer Finance News.* Vol. 40, No. 3, Sept., 1955. National Consumer Finance Association, 315 Bowen Bldg., Washington 5, D. C.

"Safety Factors in Automobile Financing." E. P. Latimer. *Time Sales Financing.* Vol. 17, No. 7, July, 1953. American Finance Conference, 176 W. Adams St., Chicago 3, Ill.

"Short-Run Economic Prospects and Programs in the Light of Longer Run Trends." Dr. Grover W. Ensley. *Consumer Finance News.* Vol. 40, No. 6, Dec., 1955. National Consumer Finance Association, 315 Bowen Bldg., Washington 5, D. C.

"The Small Loan Business—Saint or Sinner?" Dr. Karl G. Pearson. *Business Education World.* Jan., 1954. Report of a personal investigation of small loan companies' policies, practices, services, costs, and charges.
"State Laws Hamper Procedural Economies." *American Banker.* Oct. 27, 1955. American Banker, Inc., 32 Stone St., New York 4, N. Y.
"State of New York Banking Department Special Report of the Superintendent of Banks on Licensed Lenders." 1946. An analysis of earnings and expenses of licensed lenders with conclusions and recommendations.
"Student Experience in Consumer Finance." Carolyn Clark. *Consumer Finance News.* Vol. 39, No. 2, Aug., 1954. National Consumer Finance Association, 315 Bowen Bldg., Washington 5, D. C.
"Subordinated Debentures: Debt that Serves as Equity." Robert W. Johnson. Reprint from *The Journal of Finance.* Vol. X, No. 1, March, 1955.
"Teaching the Kids How Business Works." Robert B. Johnson. *Time Sales Financing.* Vol. 17, No. 4, April, 1953. American Finance Conference, 176 W. Adams St., Chicago 3, Ill.
"Violations of Bankruptcy Laws." Joseph E. Newton. *Consumer Finance News.* Vol. 38, No. 6, Dec., 1953. National Consumer Finance Association, 315 Bowen Bldg., Washington 5, D. C.
"Will the Credit Industry be Trapped by its own Ratio?" Robert E. Kilbride. *Time Sales Financing.* Vol. 17, No. 2, Feb., 1953. American Finance Conference, 176 W. Adams St., Chicago 3, Ill.

III. PROCEEDINGS—CONSUMER CREDIT CONFERENCES —NATIONAL CONFERENCE ON CONSUMER CREDIT SERIES —MICHIGAN CONSUMER CREDIT CONFERENCE SERIES —MISCELLANEOUS CONFERENCES

1. National Conferences

Ohio State University, Columbus, Ohio. March 23 & 24, 1948.
Proceedings. Ohio State University Publications—College of Commerce Conference Series—No. C-53. 162 pp. Out of Print.
Contents included the following papers and addresses:
"The Consumer Credit Structure"—Thomas W. Rogers
"Consumer Credit Volume"—Albert Haring
"What Consumer Credit Does for Production"—William J. Cheyney
"What Consumer Credit Does for Distribution"—J. Gordon Dakins
"What Consumer Credit Does for the Wage Earner and the Standard of Living" —Donald F. McClure
"Contribution of Consumer Credit to the Economic Training of the Individual"—Thomas W. Doig
"Federal Regulation of Consumer Credit"—Theodore N. Beckman
"Self-Regulation of Consumer Credit"—Robert Bartels
"State Regulation of Consumer Credit"—James B. McMahon, Jr.
"Credit in Business"—Henry H. Heimann
University of Illinois, Urbana, Ill. Oct. 5 & 6, 1950, *Proceedings—*
Consumer Credit Today, University of Illinois Bulletin—College of Commerce and Business Administration—Vol. 48, No. 76. 212 pp. Out of Print.
Contents included the following papers and addresses:
"An Economic Historian Looks at Consumer Credit"—Donald L. Kemmerer
"Consumer Credit and Distribution Today"—Manfred I. Behrens, Jr.
"A Summary Review of the Laws Governing Consumer Credit"—Thomas W. Rogers
"Measurement of Consumer Credit"—Homer Jones
"Business Outlook, 1951 and Beyond, and the Role of Consumer Credit"—S. Morris Livingston
"The Qualitative Analysis of the Demand for Installment Sales Credit"—Avram Kisselgoff
"The Effect of Consumer Credit on Business Fluctuations"—Ernst A. Dauer
"Consumer Credit and the Family"—Reavis Cox
Panel Discussions on "Interpretation of Consumer Credit Measurements" and "Demand-Supply of Consumer Credit and Economic Stability."

Lehigh University, Bethlehem, Pa. May 24 & 25, 1951. *Proceedings.*
The College of Business Administration. 165 pp. $1.00.
Contents included the following papers and addresses:
"What We Don't Know About Consumer Credit"—M. R. Neifeld
"An Appraisal of Regulation W"—David C. Melnicoff
"Regulation W in Relation to Retail Installment Credit"—Albert Haring
"General Appraisal of Regulation W"—Paul L. Selby
"Consumer Credit in a Guns-and-Butter-Economy"—G. Rowland Collins
"Evaluating the Risk"—Clarence E. Wolfinger
"Consumer Credit Courses in Colleges and Universities"—Frank Parker
"Consumer Credit Courses in High Schools"—Fred Kane
"Teaching Consumer Credit in Universities and High Schools"—Curtis A. Williams
Panel Discussion: "The Place of Consumer Credit Agencies in the Economy"
Indiana University, Bloomington, Ind. May 22 & 23, 1952. *Proceedings.*
Indiana University Bulletin—School of Business—Vol. L, No. 22. 196 pp. $1.00.
Contents included the following papers and addresses:
"Dynamics of Consumer Credit"—Herman B. Wells
"The Manufacturer's Need for Consumer Credit"—Robert A. Seidel
"The Retailer is in the Business of Moving Merchandise"—Clarence E. Wolfinger
"Consumer Credit and the Standard of Living: Europe and America"—Paul L. Selby
"Economics of Constructive Consumer Credit"—Emil Leffler
"Installment Credit and Automobile Ownership, in the United States, 1946-51"—Thomas W. Rogers
"Consumer Credit and the Public"—Mike Monroney
"Revolving Credit—Good for Both Customer and Store"—S. C. Patterson
"Recent Bank Experience with Consumer Credit"—Paul Welch
"Sales Credit Company Operations"—R. Earl O'Keefe
"An Analysis of Factors in Granting Credit"—E. F. Wonderlic
Panel Discussion on Regulation W
New York University, New York, N. Y. April 8-10, 1953. *Proceedings.*
"Role of Consumer Demand and Consumer Credit." New York University Business Series—Schools of Business—14.
Contents included the following papers and addresses:
"Can Consumer Spending Compensate for Stabilized or Decreased Defense Spending?"—Martin Gainsbrugh
"Consumer Buying Changes and Employment Levels"—Jules Backman
"Values and Dangers of Consumer Credit for Lower Income Groups"—Helen Hall
"Discretionary Income and the Use of Consumer Credit"—Arno H. Johnson
"The Institutional Acceptance of Consumer Credit"—William J. Cheyney
"Measuring the Consumers' Ability and Willingness to Buy"—Stahrl Edmunds
"More Effective Use of Consumer Credit by Manufacturers"—Anthony E. Cascino
"Can Distributor-Wholesalers Expand Volume with Greater Use of Consumer Credit?"—J. Henry Wendt
"Consumer Credit as a Tool to Expand Retail Sales"—Solomon Edelman
"How Banks can Develop the Use of Consumer Credit"—Edward Donohoe
"The Role of Advertising in the Enlarged Utilization of Consumer Credit"—Robert B. Barton
"Tax Reduction and the Consumer's Ability to Borrow"—John K. Langum
"Restrictive and Regulatory Obstacles to Consumer Credit"—Edgar T. Higgins
"The Economic Basis for a Further Expansion of Consumer Credit"—Jules I. Bogen
"How Consumer Credit Can Promote World Well-Being"—G. Rowland Collins
Panel on "Consumer Credit After the Defense Spending Peak"
University of Southern California, Los Angeles, Cal. Oct. 7 & 8, 1954.
"Moving Production and Stabilizing Employment Through Consumer Credit."
University of Southern California Press. 106 pp. $1.00.
Contents included the following papers and addresses:
"What is Consumer Credit?"—William J. Cheyney

"Commercial Banks and Consumer Credit"—Carl A. Bimson
"The Impact of Consumer Credit on Production and Employment"—Theodore Kreps
"Industrial Banking's Aid to Industry"—Myron R. Bone
"Credit Unions—Consumer Credit Operated by Consumers"—W. B. Tenney
"Consumer Finance Companies as a Market Influence"—Paul L. Selby
"Merchandise and Service Charge Accounts"—Arthur E. Kaiser
"The Credit Bureau's Contribution to Sound Credit"—Harold A. Wallace
"How People Use Retail Store Installment Credit"—Roscoe R. Rau and Albert Haring
"New Horizons for Consumer Credit"—Lawrence C. Lockley
"Installment Sales and Automobile Distribution"—Thomas W. Rogers
"Consumer Credit in an Expanding Market"—Robert R. Dockson

University of North Carolina, Chapel Hill, North Carolina. April 3-5, 1955. School of Business Administration. "Consumer Credit in an Expanding Economy." 97 pp. $1.00.

Contents included the following papers and addresses:
"Business Prospects for 1955"—Roy L. Reierson
"The Economic Influence of Consumer Credit in Use"—Paul M. Mazur, William J. Cheyney, Ernst A. Dauer, Sidney E. Rolfe
"Consumer Credit and the Consumer"—George Katona, Albert Haring, Thomas W. Rogers, Robert G. Trosper
"Practical Values of the Liberal Arts"—Robert Burton House
"Attitudes Toward Consumer Credit"—Paul L. Selby, George Hammond, Wm. Hays Simpson, Josephine Kremer, Harold A. Wallace
"Education About Consumer Credit"—Emil Leffler, Virgil B. Wiley
"Industry Views About Consumer Credit"—Edwin P. Latimer, Don L. Jordan, James P. McMillan, Linton Overstreet
"The Expanding South"—Lewis M. Smith, Thomas C. Boushall, Frank Parsons, B. U. Ratchford

2. *Michigan Consumer Credit Conferences*

Michigan Consumer Credit Conference, Albion College, Albion, Mich. April 22 and 23, 1952. *Proceedings.* The Consolidated Reporting Co., 303 Fourth Ave., New York 10, N. Y.

Contents included the following papers and addresses:
"The Nature, Scope and Expansion of Consumer Credit"—Thomas W. Rogers
"The Market for Consumer Credit: Demand and Supply"—Ernst A. Dauer
"The Relationship Between Distribution and Credit"—C. R. Brogan
Panels on "Social Implications of Consumer Credit" and "What Controls Consumer Credit? How do I get it? How much can I get? Are there justifiable limits?"

Michigan Consumer Credit Conference, Albion College, Albion, Mich. May 5 and 6, 1953. *Proceedings.* The Consolidated Reporting Co., 303 Fourth Ave., New York, 10, N. Y.

Contents included the following papers and addresses:
"Economic Factors Specifically Related to Consumer Credit"—Robert Bartels
Panels on "Safety Factors in Lending and Extending Credit," "As Others See Us" and "How are We Educating the Public?"

Third Michigan Consumer Credit Conference, Albion College, Albion, Mich. May 4-5, 1954. *Proceedings.*

Contents included the following papers and addresses:
"Consumer Credit—Its Place in the Nation"—Dr. Theodore A. Andersen
"Consumer Credit—In Principle and Practice"—Dr. M. R. Neifeld
"Consumer Credit at Work Abroad"—Paul L. Selby
"The Place of Consumer Credit in the College Curriculum"—Dr. Miller Upton
"Government Fiscal Policy and Its Effect on Consumer Credit"—Dr. Paul W. McCracken
Panels on "Consumer Credit—Constructive Promotion of Goods and Services" and "Consumer Credit—Vital to Consumer Well-Being"

Fourth Michigan Consumer Credit Conference, Albion College, Albion, Mich. May 4-5, 1955. *Proceedings.*

Contents included the following papers and addresses:

"Economics for Today's Living"—Raymond Rodgers

"Consumer Credit, Consumer Assets, and Consumer Behavior"—Dr. James N. Morgan

"Looking Ahead in Consumer Credit"—Zola Rosenfeld

Panels on "Consumer Credit and the American Family," "What's Ahead—The Challenge of Tomorrow" and "Education in the Area of Consumer Credit."

3. Miscellaneous Conferences.

Proceedings of the Consumer Credit Conference. Sponsored by Washington University School of Business and Public Administration and University College, in cooperation with Missouri Consumer Finance Association. Washington University, St. Louis 5, Mo. Annual.

Installment Credit Clinic. Proceedings of the New York State Bankers Association, The Consolidated Reporting Co., 303 Fourth Ave., New York 10, N. Y. Annual.

Installment Lending Conference. Proceedings of Illinois Bankers Association. The Consolidated Reporting Co., 303 Fourth Ave., New York, N. Y. Annual.

Proceedings, The University of Rochester Consumer Credit Conference. April 21, 1955. Sponsored by Dept. of Economics and Business Admn., The University of Rochester, Rochester 2, N. Y.

Proceedings of Seminar in Consumer Credit Management. Nov. 13, 20, 27, and Dec. 4, 11, 18, 1951. Columbia University, Graduate School of Business, New York, N. Y.

Annual Consumer Credit Symposium. Compilation of articles and papers reprinted from various sources, published by The Consolidated Reporting Co., 303 Fourth Ave., New York 10, N. Y.

Annual Proceedings of National Installment Credit Conferences. Speeches and papers at annual National Installment Credit Conference of the American Bankers Assn., Installment Credit Commission, 12 East 36th St., New York 16, N. Y.

Pennsylvania Educators Symposium on Consumer Credit. Proceedings of a conference of economists and educators, April 17, 1953, University of Pennsylvania, 3446 Walnut St., Philadelphia 4, Pa., University of Pennsylvania Bulletin, Vol. LIV, No. 1.

Consumer Credit Conference. Proceedings of the Pennsylvania Bankers Association. The Consolidated Reporting Co., New York, N. Y.

Panel Discussion and Question and Answer Session on Regulation X and W. Conducted by New York State Bankers Assn., Dec. 6, 1950, Consolidated Reporting Co., New York, N. Y.

Annual Institute of Industrial Banking. Proceedings of American Industrial Bankers Association. Consolidated Reporting Co., New York, N. Y.

The *Annuals* of the American Academy of Political and Social Science. Vol. 196. 1938. Philadelphia, Pa.

Proceedings of the General Sessions. National Consumer Finance Association 41st Annual Convention, Oct. 5-8, 1955. Boston, Mass. Speeches and papers delivered at the annual meeting of the members, published by the National Consumer Finance Assn., 315 Bowen Bldg., Washington 5, D. C.

IV. FAMILY FINANCE AND MONEY MANAGEMENT

Consumer Economic Problems. W. Harmon Wilson and Elvin S. Eyster. South-Western Publishing Co., Cincinnati, Ohio. 1951. 747 pp. $2.93.

Consumer Education in Your School (a handbook for teachers and administrators). 60c; *Managing Your Money, Using Consumer Credit.* 35c. The Consumer Education Series, National Association of Secondary School Principals (a Div. of the National Education Assn., 1201 Sixteenth St., N. W., Washington).

Consumer Problems. Arch W. Troelstrup. McGraw-Hill Book Co., New York. 1952. 458 pp. $5.00.

The Consumer Investigates. A. B. ZuTavern and A. E. Bullock. The University Publishing Co., Lincoln, Nebr. 1950. $3.70.

Consumer Living. Fred T. Wilhelms. Gregg Publishing Co., New York. 1951. 591 pp. $3.20.
The Consumer's Economic Life. Jessie Graham and Lloyd L. Jones. Gregg Publishing Co., New York. 1946. $2.40.
Education for Installment Buying. Adrian Rondileau. Columbia University, New York. 1944. A program for educating consumers in the use of installment credit.
Family Finance. Howard F. Bigelow. Lippincott, New York. 1953. 502 pp. $5.50.
How to Avoid Financial Tangles. K. C. Masteller. American Institute for Economic Research, Great Barrington, Mass. 1950. 159 pp. $1.00.
How to Live Within Your Income. J. K. Lasser and Sylvia Porter. Simon and Schuster, New York. 1948. 120 pp. $1.00.
How to Plan Your Financial Security. Lawrence Washington. McGraw-Hill Book Co. (Whittlessey House), New York. 1949. 265 pp. $3.50.
Managing For Effective Living. Mildred C. Klohr and Margaret R. Goodyear. John Wiley and Sons, Inc., New York. 1954. 344 pp. $4.00.
Managing Personal Finances. David J. Jordan and Edward F. Willett. Prentice-Hall, Inc., New York. 1951. 381 pp. $6.00.
Managing Your Money. J. K. Lasser and Sylvia Porter. Holt and Co., New York. 1953. 430 pp. $5.00. (Text: $4.00).
Money Management. Household Finance Corp., Consumer Education Dept., Chicago 11, Ill. 10c ea. Series of booklets on budgeting and managing family income.
Personal Finance. Elvin F. Donaldson. Ronald Press Co., New York. 1948. 584 pp. $4.50.
Personal Finance: Principles and Case Problems. Arthur W. Hanson and Jerome B. Cohen. Richard D. Irwin, Inc., Homewood, Ill. 1954. 682 pp. $8.00.
Personal Finances. J. A. Leavitt and Carl O. Hanson. McGraw-Hill Book Co., New York. 1950. 374 pp. $3.50.
Spending for Happiness. Elsie Stapleton. Prentice-Hall, Inc., New York. 1949. 267 pp. $2.75.
Your Personal Economics. Augustus Smith, Gladys Bahr, and Fred T. Wilhelms. McGraw-Hill Book Co., New York. 1949. 458 pp. $2.40.

V. SELECTED LEGAL REFERENCES

Analysis of the Soldiers' and Sailors' Civil Relief Act. American Bankers Assn., 12 East 36th St., New York 16, N. Y. 25c.
Annotations on Small Loan Laws. F. B. Hubachek. E. L. Hildreth and Co., Brattleboro, Vt. 1938. 178 pp.
Bankruptcy Handbook for Consumer Finance Company Attorneys. National Consumer Finance Association, 315 Bowen Bldg., Washington 5, D. C. 1954. 89 pp. $1.00.
Chattel Mortgages in Colorado. Louis A. Hellerstein. The A. B. Hirschfeld Press, Denver, Colo. 1956. 194 pp.
Compilation of Consumer Finance Laws. Roger Barrett. National Consumer Finance Assn., 315 Bowen Bldg., Washington, D. C. A compilation of statutory and related information as to consumer finance, usury, and related laws including sales finance laws (except federal acts and regulations). 1952. 722 pp. $15.00.
Conditional Sale-Chattel Mortgage Reports. Commerce Clearing House, Inc., 214 N. Michigan Ave., Chicago 1, Ill. Loose leaf volumes on technical requirements for making and enforcing installment sales contracts, kept up to date with replacement and supplemental material. $90.00 on one-year basis.
Consumer Finance Law Bulletin. Roger S. Barrett. National Consumer Finance Assn., 315 Bowen Bldg., Washington 5, D. C. Published quarterly.
"Credit Insurance as A & H." Arthur J. Cade. *Accident and Health Underwriters,* Nov. 1955.
Credit Manual of Commercial Laws. The National Association of Credit Men, 229 Fourth Ave., New York 3, N. Y. Annual reference work for credit and other financial management. About 770 pp. 1955. $10.00.
Credit Unions: Organization, Operation, Questions of Legality. David A. Bridewell, Matthew Bender & Co., Inc., 109 State St., Albany 1, N. Y. 2nd ed. 1955. 422 pp. $4.50.

"The Drift Toward a Consumer Credit Code." F. B. Hubachek. *The University of Chicago Law Review.* University of Chicago Law School, 5750 Ellis Ave., Chicago 37, Ill. Vol. 16, Summer, 1949. Shows the increasing similarities in laws governing the various types of consumer financing agencies.

Federal Credit Union Act and By-Laws. Federal Security Admn., Bureau of Federal Credit Unions, Dept. of Health, Education and Welfare, Washington, D. C.

"The Fundamental Issues of Consumer Credit Insurance." Arthur J. Cade. *Insurance Law Journal.* Feb., 1955.

Index to Legal Literature on Regulation of Consumer Installment Lending and Usury Laws. Roger S. Barrett and Charles G. Ulrich. Law Forum of the National Consumer Finance Assn., 315 Bowen Bldg., Washington, D. C. 1948. 163 pp. $2.00.

Installment and Conditional Sales Service. Prentice-Hall, Inc., 70 Fifth Ave., New York 11, N. Y. Loose Leaf service on laws covering conditional sales contracts. Monthly supplements. $84.00 a year for national coverage; $48.00 a year for single states only.

Legal Digest of Laws, Opinions and Rulings Affecting Industrial Banking Operations. Consumer Banking Institute, affiliate of Consumer Bankers Assn., Washington, D. C. 1945. Out of print.

Model Consumer Finance Act. National Consumer Finance Association, 315 Bowen Bldg., Washington, D. C. 1948. On request.

The Loan Shark Problem Today. Duke University School of Law, Duke Station, Durham, N. C. Law and Contemporary Problems. Vol. 19, Winter, 1954. 138 pp. $2.00.

"Michigan Upholds Time Price Theory." Deneen A. Watson, *Time Sales Financing.* Vol. XIV, June, 1950. American Finance Conference, 176 W. Adams St., Chicago 3, Ill.

"Recent Rulings Show Strict Interpretation of Time Price Theory." Deneen A. Watson, *Time Sales Financing.* Vol. XIV, Jan.-Feb., 1950. American Finance Conference, 176 West Adams St., Chicago 3, Ill.

Regulation of the Small Loan Business. Rolf Nugent and Louis N. Robinson, Russell Sage Foundation, New York, N. Y. 1935. $3.00.

"Regulation W: Experiment in Credit Control." Robert Paul Shay. University of Maine Studies, Second Series, No. 67. April, 1953. Vol. LV, No. 11.

"The Sale of Property Upon Credit." Thomas W. Rogers. *Time Sales Financing.* Vol. VII, Sept.-Dec., 1942. American Finance Conference, 176 W. Adams St., Chicago 3, Ill.

"Sale of Property on an Installment Payment Basis," Thomas W. Rogers. *Time Sales Financing.* Vol. X, Oct., 1945. American Finance Conference, 176 W. Adams St., Chicago 3, Ill.

"Small Loan Laws and Credit Insurance." Wallace P. Mors. *Insurance Law Journal.* Dec., 1954.

Small Loan Laws of the United States. Wallace P. Mors, Bureau of Business Research, Western Reserve University, 167 Public Square, Cleveland 14, Ohio. 11th edition. Education Pamphlet, No. 2. 1955. 31 pp. 30c.

Social Background of the Small Loan Business in the United States. Robert W. Kelso. University of Michigan, Ann Arbor, Mich. 1948.

"State Regulation of Retail Installment Financing—Progress and Problems." Wallace P. Mors. *The Journal of Business.* Vol. 23, Oct. 1950, and Vol. 24, Jan., 1951. University of Chicago Press, 5750 Ellis Ave., Chicago 37, Ill. An evaluation of existing retail installment financing laws.

Suggested Motor Vehicle Sales Finance Act. American Finance Conference, 176 W. Adams St., Chicago 3, Ill. On request.

"The Tie-In Sales of Credit Insurance in Connection with Small Loans and Other Transactions." Report of the Sub-committee on Antitrust and Monopoly Legislation of the Committee on the Judiciary. U. S. Senate. (Langer Report.) 1955.

"Time Sale or Loan," *Time Sales Financing.* Vol. XIX., Jan., 1955. American Finance Conference, 176 W. Adams St., Chicago 3, Ill.

"Time Sale or Loan," *Time Sales Financing.* Vol. XIX., March, 1955. American Finance Conference, 176 W. Adams St., Chicago 3, Ill.

"Time Selling and Usury," Robert L. Oare, *Time Sales Financing.* Vol. XIV, June, 1950. American Finance Conference, 176 W. Adams St., Chicago 3, Ill.

Trade Practice Rules Relating to the Retail Installment Sale and Financing of Motor Vehicles. Promulgated Feb. 6, 1951. Federal Trade Commission, Washington 25, D. C. On request.

VI. PERIODICALS AND SERVICES

Each of the periodicals listed regularly or frequently includes articles on consumer credit. Association periodicals are listed at prices to non-members.

AFC Dealer Newsletter. American Finance Conference, 176 W. Adams St., Chicago 3, Ill. On request. Sent four to six times a year to new and used car dealers.

American Banker. American Banker, Inc., 32 Stone St., New York 4, N. Y. Daily. $20.00 a year.

Bankers Monthly. Rand McNally & Co., P.O. Box 7600, Chicago 80, Ill. Monthly. $5.00 a year.

Banking. American Bankers Association, 12 E. 36th St., New York 16, N. Y. Monthly. $5.00 a year.

Banking's Newsletter. American Bankers Association, 12 E. 36th St., New York 16, N. Y. Monthly. $5.00 a year.

Commercial and Financial Chronicle. Wm. B. Dana Co., 25 Park Place, New York 7, N. Y. Twice Weekly. $60.00 a year.

Consumer Credit Letter. National Research Bureau, Inc., 415 N. Dearborn St., Chicago, 10, Ill. Weekly. $25.00 a year.

Consumer Credit Statistics. National Foundation for Consumer Credit, Inc., 1627 K St., N. W., Washington 6, D. C. Monthly. $5.00 a year.

Consumer Finance Law Bulletin. National Consumer Finance Association, 315 Bowen Bldg., Washington 5, D. C. Quarterly. $3.00 a year.

Consumer Finance News. National Consumer Finance Association, 315 Bowen Bldg., Washington 5, D. C. Monthly. $2.50 a year.

Credit Currents. National Retail Dry Goods Assn., Credit Management Div., 100 W. 31st St., New York 1, N. Y. Monthly. $3.00 a year.

Credit and Financial Management. National Association of Credit Men, 229 Fourth Ave., New York 3, N. Y. Monthly. $3.00 a year.

The Credit Union Bridge. Credit Union National Association, Box 431, Madison 1, Wisc. Monthly. $2.00 a year.

Credit World. National Retail Credit Association, 375 Jackson Ave., St. Louis 5, Mo. Monthly. $5.00.

Crowell-Collier Automotive Survey. Crowell-Collier Publishing Co., 640 5th Ave., New York, N. Y. Yearly.

Finance. Finance Publishing Co., 20 N. Wacker Drive, Suite 3110, Chicago 6, Ill. Monthly. $5.00 a year.

Industrial Banker. American Industrial Bankers Association, 1210 Lincoln Bank Tower, Fort Wayne, Ind. Monthly. $3.00 a year.

Installment Retailing. Installment Retailing, Inc., 20 E. 50th St., New York 22, N. Y. Monthly. $10.00 a year. Specializes in house-to-house installment selling.

Journal of Finance. American Finance Association, 5750 Ellis Ave., Chicago 37, Ill. Quarterly. $5.00 a year (association fee). $3.00 to libraries.

Monthly Delinquency Survey on Installment Loans. Installment Credit Commission, American Bankers Association, 12 E. 36th St., New York 16, N. Y. On request. 2 pages.

Sales Credit News. American Finance Conference, 176 W. Adams, Chicago 3, Ill. Bi-monthly. On request. Contains news stories, graphs, and cartoons on consumer credit, for reprinting by newspapers and magazines.

Time Sales Financing. American Finance Conference, 176 W. Adams St., Chicago 3, Illinois. Monthly. Restricted circulation. Distributed to members, and sent on request to economists, educators, government officials, and libraries. Contains articles on sales financing and current news of the financing industry.

VII. U. S. GOVERNMENT PUBLICATIONS

Board of Governors of the Federal Reserve System

The publications named below are available from the Division of Administrative Services, Board of Governors of the Federal Reserve System, Washington, D. C.

Federal Reserve Bulletin. Monthly. $6.00 a year, or 60c a copy. Statistics on short- and intermediate-term consumer credit are presented in the section "Financial, Industrial, and Commercial Statistics, United States." The December issue contains subject-matter index of articles for the year.

The following four articles published in the *Bulletin* present the findings of special studies of data reported by registrants under Regulation W: "A Study of Installment Credit Terms," December, 1949; "Installment Credit Terms Before and During Regulation," July, 1951; "Credit and Sales Reported by Regulation W Registrants," October, 1951; and "Changes in Installment Credit Terms," May, 1952.

Federal Reserve Charts on Bank Credit, Money Rates, and Business. Monthly. $6.00 a year, including edition of historical supplement. 60c a copy. Includes 3 trend charts on consumer credit.

Federal Reserve System—Purposes and Functions. 1954. 224 pages. On request. Federal regulation of consumer credit is discussed in Chapter IV, "Selective Credit Regulation."

Historical Supplement to Federal Reserve Charts on Bank Credit, Money Rates and Business. Annual. September. 60c a copy. Includes four trend charts on consumer credit.

Statistical Reports. Monthly. On request. Unless indicated, statistics are on national basis only. Separate reports are as follows:

Consumer Credit (Short- and Intermediate-Term and Consumer Installment Credit Extended and Repaid) G. 19.

Consumer Finance Companies—Loans Outstanding and Volume of Loans Made. G. 21.

Consumer Installment Credit at Commercial Banks. G. 18 (Data given for Federal Reserve Districts.)

Department Store Credit. G. 17 (Data given for Federal Reserve Districts).

Retail Furniture Report. G. 16 (Data given for Federal Reserve Districts).

Sales Finance Companies. G. 20.

Survey of Consumer Finances. An annual study conducted by the Board of Governors of the Federal Reserve System in cooperation with the Survey Research Center of the University of Michigan. Data collected on consumer finances and published in *Federal Reserve Bulletin* articles. Reprints on request.

U. S. Department of Commerce, Washington, D. C.

These references may be consulted in the libraries of the Department of Commerce field offices, where copies may also be purchased.

U. S. Census of Business—1948—Retail Trade—Credit. Bulletin No. 2-R-11. 157 pages. $1.00. Bureau of the Census. Contains a statistical analysis of store cash and credit sales and balances due.

Survey of Current Business. Office of Business Economics. Monthly. Subscription price including weekly statistical supplement, $3.25 a year; Foreign: $4.25. Single copy: 30c. Includes periodic statistics on consumer credit (page S-16) by type of credit and holder, as well as analytical articles. See back cover of December issues for list of articles published in the year.

Annual Retail Trade Report—Estimated Dollar Volume of Merchandising Inventories and Receivables, Percentage Changes in Inventories. Bureau of the Census. 4 pages. Sent to subscribers of Retail Trade Report, published monthly, $1.00 a year. Single copies, 10c. Presents retail store receivables (with percentage changes from year before) for all retail stores and organizations operating 11 or more stores, by kind of business and type of credit (installment and charge account). 1953 edition (published 1954).

Business Statistics, 1955 Biennial Edition. A supplement to the *Survey of Current Business.* Office of Business Economics. 339 pages. $2.00. Contains time series table on consumer credit by type of credit and type of holder, 1939-1954. End of month outstandings 1951-1954, and installment credit extended and repaid by type of credit.

Statistical Abstract of the United States. Bureau of the Census. Annual. 1955 edition, $3.50. Several tables on consumer credit.

Department of Health, Education and Welfare, Washington, D. C.

The following are available on request from the Bureau of Federal Credit Unions, Social Security Admn., Department of Health, Education, and Welfare:

Federal Credit Union Bylaws

Security Through Federal Credit Unions

Report of Operations—Federal Credit Unions. Annual

Securities and Exchange Commission, Washington, D. C.

"Volume and Composition of Individuals' Saving." Released Quarterly. Sent on request.

VIII. ASSOCIATIONS

The following associations are listed because their activities and publications in the consumer credit field frequently relate to economic and statistical aspects of consumer credit. Some deal with problems of credit extension and collection; others with sales techniques.

American Bankers Association, 12 East 36th St., New York 16, N. Y.
American Finance Conference, 176 West Adams St., Chicago 3, Ill.
American Industrial Bankers Association, Lincoln Bank Tower, Fort Wayne 2, Ind.
American Marketing Association, 1525 East 53rd St., Chicago 15, Ill.
Associated Credit Bureaus of America, Inc., 7000 Chippawa St., St. Louis 19, Mo.
Building Material Dealers' Credit Association, 2351 W. 3rd St., Los Angeles 57, Cal.
Consumer Bankers Association (formerly Morris Plan Bankers Association), 738 Washington Bldg., Washington 5, D. C.
Consumer Credit Insurance Association, 307 N. Michigan Ave., Chicago, Ill.
Credit Union National Association, Box 431, Madison 1, Wisc.
Furniture Retailers' Association, Inc., 2712 S. Hill St., Los Angeles 7, Cal.
National Association of Credit Men, 229 Fourth Ave., New York 3, N. Y.
National Consumer Finance Association, 315 Bowen Bldg., Washington 5, D. C.
National Foundation for Consumer Credit, Inc., 1627 K St., N. W., Washington 6, D. C.
National Retail Credit Association, 375 Jackson Ave., St. Louis 5, Mo.
National Retail Dry Goods Association, 100 W. 31st St., New York 1, N. Y.
National Retail Furniture Association, 666 Lake Shore Drive, Chicago 11, Ill.
National Sales Executives Club, 136 East 57th St., New York, N. Y.
Robert Morris Associates, 1417 Sansom St., Philadelphia 2, Pa.

The activities and interest of a number of non-profit national organizations not elsewhere mentioned result in treatises on consumer credit or in which consumer credit is a factor. These may be made available in brochures, leaflets, books, and as articles in their periodicals. To determine what they may have available on the subject, write directly to the association.

Associations of this type, some of which are foundations, are:

American Management Association, 330 W. 42nd St., New York 18, N. Y.
Brookings Institution, 722 Jackson Place, Washington 6, D. C.
Chamber of Commerce of the United States, 1615 H. St., N. W., Washington 6, D. C.
Committee for Economic Development, 444 Madison Ave., New York 22, N. Y.
National Association of Manufacturers, 14 W. 49th St., New York 20, N. Y.
National Industrial Conference Board, 247 Park Ave., New York 17, N. Y.
National Planning Association, 1606 New Hampshire Ave., N. W., Washington 7, D. C.
Twentieth Century Fund, 330 West 42nd St., New York 18, N. Y.